

TEMPORARY AUDITING SERVICES PROJECT

Audit Summary Report

Contract/Requisition Number: RQ770292



Prepared for:

District of Columbia
Office of Food and Nutrition Services

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AUDIT SUMMARY REPORT

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EXECUTIVE SUMMARY

Purpose

District of Columbia Public Schools (DCPS) Office of Food and Nutrition Services (OFNS) issued a purchase order for temporary auditing services from Federal Management Systems, Inc. (FMS) to perform, within 60 days, an assessment of the performance of past services provided under the negotiated contract between DCPS and its Food Service Management Company (FSMC) and to monitor that they fulfill the remaining requirements of their current contract. The food service contract was entered into on or about June 27, 2008, and renewed by option to exercise on or about June 27th of each year. FMS began the audit in May 2012.

The purpose and objectives of the audit were to:

- (1) Assess the statement of work and develop an audit plan
- (2) Determine whether prices, rebates, discounts and allowances were consistent with terms and conditions of the contract
- (3) Determine the extent of non-compliant meals
- (4) Determine whether there were any major inconsistencies in food inventory
- (5) Determine whether there were other charges not authorized by the contract
- (6) Determine whether the FSMC followed proper procedures associated with the Guaranteed Minimized Loss
- (7) Determine whether there were any major inconsistencies in equipment inventory

FMS planned the audit by collecting information related to the audit objectives and scope of work. The FSMC contract, sample invoices, year-end summaries, notice-to-cure documents and any additional relevant information were reviewed. To develop our findings we reviewed Federal and the District of Columbia laws and regulations governing school meal programs particularly those with regard to FSMCs as follows:

- US Department of Agriculture (USDA), Office of Inspector General (OIG) Audit Reports for Food and Nutrition Service National School Lunch Program
- USDA OIG Audit Report Food and Nutrition Service National School Lunch and Breakfast Program District of Columbia
- US Government Accountability Office report GAO-09-156R Meal Counting and Claiming by Food Service Management Companies in the School Meals Program

- USDA Food and Nutrition Service 7 CFR Parts 210 and 220
- USDA Food and Nutrition Service Contracting with Food Service Management Companies Guidance for School Food Authorities
- OMB Circulars A-87, A-110 and A-102
- Healthy Schools Act of 2010
- Living Wage Act of 2006
- OSSE DCPS SY 2011-2012 Administrative Review
- OSSE DCPS SY 2010-2011 Summary of Findings Provision 2 Monitoring Reviews
- OSSE DCPS 2009 Coordinated Review Effort (CRE) Summary of Findings
- DCPS Memorandum on Expiration of the FSMC contract
- OFNS Proposal for Improving Performance

The FSMC is a subsidiary of a multi-national company with many different components operating in specialized fields. The DCPS components are:

- The FSMC
 - operating under its parent company umbrella
 - Foodbuy
 - responsible for working with suppliers and has direct management of the rebate process for the multi-national company and its components including the FSMC
- (Note: Foodbuy is also a subsidiary of the multi-national company)

FMS assessed the Statement of Work (SOW) to develop an audit program. The program was designed to include the purpose, procedures and deliverables for each task.

Overview of Results

The report evaluated the food service program as regards to the management, prices, cost, reimbursements, rebates, discount and allowances as provided by the FSMC for the District of Columbia's Food and Nutrition Services Program as specified in contract GAGA-2008-R-0064. However, this report does not address the performance requirements of the current contract GAGA-2012-C-0057.

Prices, Rebates, Discounts and Allowances Analysis

Prices charged to DCPS were sometimes higher, sometimes lower and sometimes equal to prices of other suppliers.

Rebates, discounts and allowances were analyzed for the period June 2008 to June 2012. Based on records evaluated during that period the FSMC did not clearly indicate the amount of each rebate, discount and allowance on invoices submitted to DCPS for payment. Rebates were in lump sum. In our opinion, transactional level detail should have been provided to support lump sum figures. A retrospective evaluation of the accounting and reporting of rebates is necessary to determine actual amounts that were not passed on to DCPS.

Non-Compliant Meal Analysis

It is our opinion that notice-to-cure memos issued by DCPS were detailed and frequent in nature. However, the FSMC objected to notices-to-cure issues and continually disputed findings of non-compliance in DCPS's memos.

A self-reporting system was being used by the FSMC to record non-compliant meals served during the day. Although, self-reporting contains entries for meals that are not compliant with the Healthy Schools Act (HSA), it does not allow for the recording of all instances of non-compliance such as food delivered late, insufficient number of meals, poor food quality, unprepared meals, and spoiled food items. For example, the system would not report a meal that is compliant with HSA even though one or more components were defective.

Production Record Analysis

Ten schools were tested by matching hand written production records against data generated by the Point-Of-Sale (POS) system. Periods tested showed errors between the POS system and handwritten Production Records. Based on our evaluation, the POS to Production Records reconciliation was not done routinely enough or it was unreliable. This unreliability impacts the monthly management fee which was based on meal counts.

Expense and Other Charges Analysis

Invoices to DCPS reflected more payments than shown in the FSMC's general ledger. A monthly analysis of the FSMC's general ledger transactions and a request for supporting documentation from the DC payment office are necessary for monitoring this activity.

Monitoring the living wage adjustment is necessary for continuous compliance with the provisions of the contract and enforcement of those provisions.

In our opinion, the supporting documentation of the FSMC's invoices to DCPS were not structured with line item traceability to the accompanying P&L.

Guaranteed Minimized Loss (GML) Analysis

An analysis of the Guaranteed Minimized Loss revealed expenses going up as schools and meals were going down. Actual credits and payments made by the FSMC to DCPS for the contractual guarantee require further verification and validation.

Inventory Process Analysis

FMS conducted 105 site visits to analyze equipment and food inventories and based on the evaluation we concluded that, inventory inconsistencies exist. FMS site visits revealed differences in the quantities of equipment, whether equipment was in working condition and whether all records match. The FSMC made over \$4.3M of capital equipment purchases on behalf of DCPS. In our opinion, the FSMC's records need to be updated.

Overview of

Recommendations Efficient contract administration requires oversight and monitoring by accounting specialists, government contracting specialists, food production specialists and facilities equipment specialists.

Prices, Rebates, Discounts & Allowances

The FSMC used various pricing structures to purchase goods on behalf of DCPS. A retrospective review of the FSMC's price listings over the course of the contract is necessary to determine if prices charged to DCPS were in fact the lowest possible price.

Rebates were reported as a lump sum on invoices to DCPS. It is necessary to obtain a transaction level detailed report of the FSMC's rebates, discounts and allowances to determine whether or not transaction level data coincide with amounts reported on invoices to DCPS.

Non-Compliant Meals

An independent monitoring system should be implemented to timely identify and record all instances of non-compliance with food safety, expired food items, and unwholesome meals that does not meet specific

standards. The monitoring should be as frequent as necessary (daily and randomly) to ensure compliance. Ensure that relevant records and documentation are properly completed as required by the DCPS contract. The system must capture non-compliance that extends beyond the Healthy Schools Act (HSA) reimbursement to include late deliveries, missing items, poor food quality, insufficient number of meals, and spoiled food items.

Production Records

A retrospective review of the production records for breakfast, lunch and supper programs is necessary to reconcile edit checks to production records. Oftentimes, meals recorded in production records were less than meals claimed for reimbursement.

Expense & Other Charges

The classification of accounts, allowable expenses and allocation of expenses needs a more precise structure for verification and validation of charges and reimbursements. The interpretation of critical sections of the contract and the contract modifications should not be left up to the FSMC's discretion.

Guaranteed Minimized Loss (GML)

The GML oversight impacts the core of the financial assessment of the food services contract by encompassing all aspects of its operations. Monthly invoices must be aggregated to determine when GML is exceeded; therefore, a regular contract review for compliance with the GML should be done. The GML requires regular monitoring of the cost of operations by business management specialists with a variety of skills, especially in government contracting, purchasing, pricing, inventory management, production, and financial analysis as the standard.

Equipment Inventory

The system of reporting, repairing, and replacing equipment should be improved. The FSMC's tracking of inventory and equipment does not provide sufficient competent documentation of the multiple characteristics of capital equipment management. The FSMC's representative indicated that DCPS is responsible for many of the related functions once the equipment has been acquired. There is a critical need for tracking inventory, preparing inventory reconciliations timely and maintaining capital equipment registers for each school.

TASK #1.0

BACKGROUND

Beginning in May 2012, DCPS OFNS procured 60 days of temporary auditing services from FMS to perform an assessment of the contract performance between DCPS and its FSMC. The negotiated contract for goods and services with the FSMC was entered into on or about June 27, 2008, and renewed by option to exercise on or about June 27th of each year.

In 2008, DCPS' food service became privatized as a result of an analysis which estimated significant cost savings through privatization. The goal was to improve the taste, quality, nutrition and prices charged for producing meals for D.C. schools. Based on a competitive open market solicitation, it was determined that an FSMC with a national reputation and which offered the best estimated fair and reasonable price would be contracted to provide food and nutrition services to DCPS. As such, this FSMC was awarded a five year contract to provide food services. The five year contract included a base year and four one year options. However, the final option year (SY 2012-2013) was not exercised.

The FSMC contract was comprised of a cost reimbursement component, a firm fixed priced component and a firm fixed unit price component. The cost reimbursement component included food costs, wages, fringe benefits, management labor costs and direct costs. The fixed priced component was for the FSMC Administrative Fee and the fixed unit component was for the FSMC Management Fee.

However, in August 2010, DCPS OFNS set out to test a new fixed-price model. In this regards, DCPS OFNS awarded two pilot food services contracts to different FSMCs as follows: (1) Food Service Pilot Program: Portable Food, and (2) Food Service Pilot Program: From Scratch Meals. Each vendor participated in a competitive Request for Proposal to provide meals to seven (7) schools. The vendor's proposals were evaluated based on numerous criteria including the vendor's capacity to implement specifics of the pilot program for inventory, prices, costs and taste and quality of their menu offerings.

Along with testing a new model, DCPS was desirous of knowing how effective the FSMC has performed and what changes may be necessary as a result of outsourcing the food and nutrition services for DC Public Schools.

FMS's assessment was a limited review of the FSMC's records for the purposes of evaluating the FSMC's compliance with contract terms and conditions related to prices, costs, reimbursements, rebates, discounts and

allowances in regards to providing food services to the District of Columbia Public Schools.

1.1 CONTRACT REVIEW

This temporary audit services project requires the completion of several tasks which include a preliminary review of the contract between DCPS and the FSMC up to and including relevant background materials.

DCPS required FMS to perform the following preliminary tasks to support the completion of each of the subsequent tasks:

- Read and review the contract;
- Review a sample of invoices;
- Review year-end summaries;
- Review Notice-to-Cure documents;
- Identify other relevant information/documents required
- Assess the SOW to determine the best course of action and timeline for the audit;
- Make recommendations to DCPS staff

Preliminary tasks provided the framework for the audit program.

1.2 FINDINGS

Based upon the review of the SOW, FMS determined the following tasks were necessary.

- a. Conduct site visits to observe operations
- b. Obtain samples of reports and records from DCPS
- c. Obtain samples of reports and records from the FSMC
- d. Hold meetings and discussions with DCPS staff
- e. Hold meetings and discussions with the FSMC's staff

Monthly and quarterly reports were not prepared as required by the food services contract requiring FMS to use alternative methods in completing tasks. Two categories of reports are as follows:

- reports that were not submitted by the FSMC to DCPS (i.e. reports associated with section B.1.15.1 Internal Audits) and
- some reports that were required to be prepared by DCPS OFNS (i.e. reports associated with section B.18.1 and C.20.8)

1.3 AUDIT PROGRAM

The audit program provides an overview of the audit approach. Procedures in the audit program were developed to meet the requirements as outlined in the SOW.

Scope

The overall audit period included the base year through Option Year 3 of the contract.

Methodology

Based on the requirements of the SOW, FMS developed and customized the audit program shown in Table 1-1. The audit program was modified to address 8 task areas associated with the FSMC's performance and compliance with the food service contract.

Table 1.1 Audit Program

	Audit Program Tasks
I. Planning	A. Collect information on all matters related to the audit objectives and scope of work
	i. Read and review the contract
	ii. Review a sample of invoices
	iii. Review year-end summaries
	iv. Review Notice-to-Cure documents
	v. Identify other relevant information/documents
	vi. Assess the Statement of Work and determine the best course of action/timeline for the audit; make recommendations to DCPS staff
	B. Ensure that information is sufficient, competent, and relevant and useful to provide a sound basis for findings
	C. Select procedures, including testing and sampling techniques in advance and revise, if necessary
	D. Ensure that the procedures are properly supervised to provide reasonable assurance that objectivity is maintained and goals are met

Audit Program Tasks	
II. Prices, Rebates, Discounts & Allowances Analysis	PURPOSE:
	A. Determine if the FSMC obtained the lowest possible price for products and equipment and subtracted all discounts and rebates from the invoiced cost
	B. Conduct an audit of the discounts, rebates, and allowances received and claimed by the FSMC since the beginning of the Contract to ensure all were passed on to DCPS
	PROCEDURES:
	A. Obtain food product/equipment prices from FSMC for products that have been purchased
	B. Obtain food product/equipment prices of equal or similar items from alternate sources
	C. Enter price comparisons into excel spreadsheet
	D. Review all invoices to ensure that discounts and rebates have been subtracted from invoices costs
	E. Obtain discount/rebate information from the FSMC
	F. Review provided documents and take detailed account of any inconsistencies in rebates/discounts provided
	DELIVERABLE: A. Prepare price comparison and rebate inconsistencies
III. Non-Compliant Meals	PURPOSE:
	Review all OFNS records to determine meals over the years that did not comply with the requirements of the Contract
	PROCEDURES:
	A. Obtain necessary data, notice-to-cure documents, pictures, etc. that identify non-compliant meals served (or not served) by the FSMC
	B. Determine non-compliant meals
	DELIVERABLE: A. Prepare a report including non-compliant meals with supporting documentation

Audit Program Tasks	
IV. Production Record Analysis	PURPOSE:
	Conduct an audit of the FSMC's food inventory and ordering process
	PROCEDURES:
	A. Review invoices, production records and FSMC ordering forms to determine if cafeterias stock appropriate amounts of food
	B. Identify schools/times when more food than necessary was ordered and not used
	DELIVERABLE:
	A. Prepare a production record analysis including supporting documentation
V. Expense & Other Charges Analysis	PURPOSE:
	Conduct an audit of FSMC records (food, labor, equipment and other large expenses) to determine if additional reimbursements are necessary
	PROCEDURES:
	A. Review invoices and identify charges not authorized by the Contract
	B. Review Dunbar Armored Car services records
	DELIVERABLE:
	A. Prepare report including other charges with supporting documentation
	DELIVERABLE:
	A. Prepare report documenting findings
VI. Guaranteed Minimized Loss Analysis	PURPOSE:
	Conduct a review of all alterations of the Guaranteed Minimized Loss (GML) to determine if the FSMC followed the proper procedures and only made modifications in keeping with the terms and conditions of the Contract
	PROCEDURES:
	A. Read and review the Contract
	B. Compare GML to actual loss
	C. Determine if FSMC followed appropriate procedures in determining the actual loss (if it differed from the GML) by reviewing the procedures set by the Contract
	D. If applicable, identify estimated value of differences
	DELIVERABLE:
	A. Prepare report comparing the actual loss with the GML including an estimated value of differences

	Audit Program Tasks
VII. Inventory Process Analysis	PURPOSE:
	Monitor the equipment inventorying process as the contract comes to a close
	PROCEDURES:
	A. Oversee DCPS inventory processes by reviewing all cafeteria inventory lists, making site visits when necessary and meeting with staff when necessary
	B. Compare the inventories taken by the FSMC and DCPS to ensure records match
	C. Visit sites where records show major inconsistencies
	DELIVERABLE:
	A. Prepare report of inventory including inventory records
VIII. Audit Report	Compile all reviews into a full report

TASK #2.0 PRICES, REBATES, DISCOUNTS & ALLOWANCES ANALYSIS

2.1 OBJECTIVE

FMS performed an analysis of product prices, comparing food product prices charged to DCPS by the FSMC to determine if the FSMC obtained the lowest possible prices for food products and subtracted all discounts and rebates from their invoiced cost. The analysis consisted of the following tasks:

- Obtaining food product prices from the FSMC for products that have been purchased
- Obtaining food product prices of equal or similar products available for products that have been purchased
- Entering price comparisons into an excel database in order to calculate price differences and
- Reviewing all FSMC invoices to ensure that discounts and rebates have been subtracted from invoiced cost

In order to conduct an audit of the rebates, discounts and allowances received and claimed by the FSMC since the beginning of the contract and to ensure all were passed on, DCPS required FMS to complete the following tasks:

- Request rebate, discount and allowance information from the FSMC
- Review provided documents and account for any inconsistencies in rebates, discounts and allowances
- Identify total dollar amount not returned to DCPS

Scope

The overall scope of this analysis was (1) to determine if the prices for products purchased by the FSMC under contract with DCPS were equal to or lower than prices of equal or similar products available from other suppliers and (2) to review and analyze the rebates, discounts, and allowances for the period June 2008 to June 2012, which included review of the monthly invoices to DCPS and a schedule of rebates maintained by the FSMC.

Methodology

Price Comparison

The overall methodology of the price comparison analysis was based on our review of (1) memos prepared by DCPS (2) DCPS price comparison with other suppliers, and (3) the FSMC's price listing. We determined that in order to assess whether the FSMC obtained the lowest possible price for purchases, the following procedures would be performed:

1. Review reports provided by DCPS on price comparisons
2. Select a sample of items that reflect a broad range of what was purchased by the FSMC that could be compared with other suppliers
3. Obtain prices from other for the same products and products of similar quality in the sample selected
4. Enter price comparisons into an excel spreadsheet
5. Calculate price differences between the FSMC and other suppliers

Rebates, Discounts & Allowances

The overall methodology of the rebate, discount and allowance analysis was to gain an understanding of the nature of rebates, discounts, and allowances by reviewing a representative sample of supplier and distributor agreements relating to the FSMC's contract with DCPS. FMS also interviewed the FSMC's representatives in order to obtain additional information and to assess the FSMC's controls over calculating, allocating, recording and reporting of rebates, discounts and allowances, and to determine how rebates were passed on to DCPS. Based on evaluating this data, FMS performed steps including:

1. Review the monthly invoices from the FSMC to DCPS to attempt a reconciliation of rebates reported
2. Obtain and review a summary listing of rebates reported by primary vendors to the FSMC and compare it to monthly totals reported on the FSMC's invoices to DCPS

2.2 DISCUSSION

Price Comparison

According to Section C.8.1 of the Contract, the FSMC is required to purchase all food and non-food commodities at the lowest price possible consistent with maintaining quality standards and in full compliance with Federal regulations. DCPS memo, dated March 23, 2012, states that OFNS has documented instances where the FSMC has quoted prices for equipment, commodities, and supplies that were considerably higher than prices quoted by other vendors for the same items including the price of food. In a comparison of prices for products between the FSMC and other suppliers, DCPS determined the FSMC's prices were an average of 10% higher for non-produce groceries and approximately 17% higher for produce.

The FSMC's price list for DCPS includes food and other items that were frequently purchased throughout the school year. The price list was broken down into the following categories:

- Freezer
- Refrigerated

- Dry Storage
- Ecolab
- Paper & Supplies
- A La Carte and
- Produce

Prices for each item on the list included a description, brand, quantity, size, the full unit cost and partial unit cost for each item. FMS matched these attributes for similar items with the DCPS provided list for other suppliers as the basis for the price comparison analysis. We also contacted two other sources for their prices of selected items and found that the DCPS price listing was more accurate and complete because of its comprehensiveness. Therefore, we utilized the DCPS list to make a fair comparison.

In our price analysis, we took a sample of items from each of the categories mentioned above and calculated price differences between the FSMC's price list and the prices of the other suppliers. To calculate the price difference, the FSMC's price was subtracted from the price of similar items with other suppliers.

In a base price to base price comparison the results indicated that, the FSMC's price was sometimes lower, sometimes higher and/or equal to the amounts quoted by other suppliers.

Due to the proprietary and confidential nature of rebate agreements and distributor discounts a net price to net price comparison was not included in the analysis.

Rebates, Discounts and Allowances

Total gross product cost and Net product of rebates were reported by the FSMC on monthly invoices submitted to DCPS over each of the four years of the contract. Rebates for the initial year of the contract were substantially lower than for the later three years and rebates received over the contract years did not correlate with increases in product costs.

FSMC Rebate Allocation Process

Rebates and discounts are negotiated at the FSMC's corporate office with the suppliers. The FSMC establishes written contracts with its suppliers and receives paybacks based on the volume of business (measured in dollars), quantity of purchases or other types of formulation with the supplier; this is referred to as the "spend" allocation. Paybacks are determined based on the percentage of spending by the account to the total spending with the supplier. As such, some paybacks are not DCPS specific, but based on purchasing as a whole by the FSMC's parent company which is a global company. The supplier pays Foodbuy allowances based on units of product bought by Foodbuy on behalf of the "Committed Customer."

With the complexity of the allocation process and with the FSMC's inability to provide traceable transaction level detail, the extent to which rebates were passed on to DCPS needs further evaluation. The FSMC has not provided conclusive information verifying that DCPS has received every rebate and discount earned over the four year contract period.

2.3 FINDINGS

1. The FSMC provided summary information by supplier for rebates that were reported and passed on to DCPS. The FSMC also reported rebates in lump sum on invoices submitted to DCPS. A review of rebates at the transaction level is necessary to determine what was not passed on to DCPS. Analyzing the rebate process requires transaction level detail for each invoice submitted to DCPS. Rebates are generally based on "spend" factors such as individual contract items or overall invoiced costs.
2. Rebates received over the contract years did not correlate with increases in purchases
3. The FSMC did not provide supporting documentation at both the transaction level and traceable transaction level detail for rebates, discounts, and allowance on invoices submitted to DCPS

2.4 RECOMMENDATIONS

Review the FSMCs actual price charged to DCPS for the base year and option years for all items purchased on behalf of DCPS to determine the FSMCs level of compliance with the contract

Require the FSMC to submit price listings for items purchased on behalf of DCPS for the past four years and compare prices with other suppliers to determine if the FSMC obtained the lowest possible price.

Require the FSMC to submit reports for the last four years containing transaction level rebates, discounts and allowances in a structure that is traceable to the monthly invoice and not through a summary lump sum amount allocated to DCPS.

TASK #3.0 NON-COMPLIANT MEALS ANALYSIS

3.1 OBJECTIVE

FMS conducted an analysis of non-compliant meals to determine the dollar value of meals that did not comply with the requirements of the contract e.g., spoiled meals, unwholesome meals, and/or meals that did not meet the specifications or requirements of the contract. DCPS required FMS to complete the following tasks:

- Obtain necessary data, notice-to-cure documents, pictures, etc that identify non-compliant meals served (or not served) by the FSMC; and
- Determine dollar value owed to DCPS of non-compliant meals.

Scope

The review and analysis of non-compliant meals included the period from June 28, 2008 to June 30, 2012.

Methodology

FMS interviewed the FSMC's and DCPS representatives to gain an understanding of the nature of non-compliant meals and how information flows through the system and determined that the following steps should be performed:

1. Obtain reports from DCPS that document non-compliant meals.
2. Review Notices-to-Cure performance deficiencies issued by DCPS to the FSMC.
3. Review narratives from WebSMARTT supplied by DCPS to determine whether non-compliant meals were properly reported in WebSMARTT by FSMC's employees.
4. Determine whether DCPS was reimbursed for non-compliant meals served at FSMC's schools.

3.2 DISCUSSION

The Council of the District of Columbia passed the Healthy Schools Act (HSA) in May 2010. This Act was introduced to DCPS in calendar year 2012. The Healthy Schools Act among other stipulations require that all school meals meet the USDA Healthier US Gold Level standards and that a \$0.10 cent loss of reimbursement will be charged for each instance where meals were not served based on a predetermined menu. The definition of a non-compliant meal includes instances when a non- menu item was served and also when a specific item within a food category was served frequently e.g., in the fresh fruit category. A non-compliant meal could mean that apples were served several times in the same week. FSMC's employees

are required to document instances of non-compliant meals through WebSMARTT and a weekly report is generated from the system.

Based on inquiries to the FSMC's management, the process for reporting non-compliant meals during SY 2011-2012 were as follows:

1. The cafeteria managers enter menu substitutions into WebSMARTT at the end of the each day.
2. The FSMC's Regional Director (RD) reviews their entries in WebSMARTT and enters them into an excel document.
3. The RD highlights the non-compliant substitutions.
4. The RD makes a list of those highlighted issues and looks at the edit check to determine the number of meals served on that day for which the FSMC will lose the \$0.10 cent reimbursement.

During SY 2010-2011, menu substitutes were not recorded electronically until mid-spring and they were not complete. The process for that school year was that managers wrote their menu changes on forms and faxed them to the FSMC's RD who then passed the forms on directly to DCPS.

The FSMC's management stated that non-compliance reports were not received from OSSE during SY 2011-2012. Instead, any non-compliance issues were communicated via notices-to-cure from DCPS. OFNS stated that it does notify the FSMC each month about meals that are not compliant with the Healthy Schools Act.

When a lunch was non-compliant with the Act, DCPS lost the \$0.10 cent per meal reimbursement. Other examples of non-compliant meals include missing food items, an insufficient number of meals or missing meals; food delivered late, poor food quality, unprepared meals and spoiled food items served to students.

However, non-compliant meals were not limited to the loss of the \$0.10 cent HSA reimbursement. Without defining a penalty, section C.4.7 of the contract stated: DCPS shall not pay the contractor for meals that are spoiled or unwholesome at the time of delivery. Notice-to-cure memos issued to the FSMC detailed such instances of non-compliant meals. The FSMC provided DCPS with letters of response to these notices.

For compliance with the Healthy Schools Act the FSMC stated that some schools cited for violations were due to the Principals decision that resulted in incidents of non-compliance. On another occasion the FSMC refuted allegations of non-compliance with the fruit component of the Healthy Schools Act by citing that the majority of HSA violations are caused by

schools serving the same fruit at lunch twice a week. In October, an incident of fruit duplication occurred at 20 of the FSMC schools, 15 of which were satellite schools where the production site controls the fruit sent. Occasionally, fruit arrives at production and on-site kitchens in poor quality from the distributor and an emergency fruit substitution must be made that day to ensure that the meal meets quality standards. Due to menu restrictions it becomes difficult for the school lead to find an appropriate substitution.

For allegations of failure to meet the standard for meals free of spoilage the FSMC informed DCPS that training was conducted on menu compliance, quality assurance and presentation of food to all Leads. The FSMC went on to say that these areas are monitored and feedback and guidance are provided to its staff.

For allegations of not providing an adequate number of meals at all sites, the FSMC's response indicated that the majority of occurrences were supper meals. The FSMC asserted supper meals were partially out of its control because its staff is not present after-hours to fully control the process in a real-time manner.

Although notice-to-cure memos were issued, the FSMC disputed them. On a number of occasions notices were sent to the FSMC which included related penalties that were based on observations made by DCPS. Several penalties charged to the FSMC were not remitted to DCPS. In our opinion, the contract was not structured to enforce such penalties. In addition, OFNS indicated that the FSMC has not remitted any payments for the some of the penalties.

3.3 FINDINGS

A system for the proper and timely documentation of all instances of non-compliant meals was not implemented. Paper trails were needed and the FSMC's self-reporting system produced incomplete and often inaccurate data. Notice-to-cure memos prepared by DCPS were often disputed by the FSMC. In our opinion, the objections were numerous and interpreted as resolved by the FSMC.

3.4 RECOMMENDATIONS

A two-fold independent monitoring system should be implemented on a daily basis to:

1. Timely identify and record all meals served that does not meet minimum HSA requirements of the daily menu and
2. Capture other non-compliance data associated with meals that are spoiled or unwholesome at the time of delivery by implementing a mechanism to record non-compliance outlined in notice-to-cure memos such as:
 - Food delivered late
 - Insufficient number of meals
 - Poor food quality
 - Unprepared meals
 - Spoiled food items

The independent monitoring system should be inclusive of assessing raw materials to capture and remove spoiled food, unwholesome food items, and expired food.

For past performance deficiencies, it is recommended that DCPS:

- Perform a more extensive review of daily production records to determine meals not compliant with the planned DCPS cafeteria menu;
- Perform an evaluation of the production records system and supporting documentation to determine the best method of recording non-compliant meals.

FMS also recommends that the FSMC implement a more responsive structure at each DCPS location to ensure the appropriate records and documentation are completed as described by the DCPS contract.

TASK #4.0 PRODUCTION RECORD ANALYSIS

4.1 OBJECTIVE

FMS conducted an audit of the FSMC's food inventory, ordering procedures, records, and on-site stock towards the end of the contracted SY 2011-2012. DCPS required FMS to complete the following tasks:

- Review production records and the FSMC's ordering process to determine if cafeterias stock appropriate amounts of food;
- Identify schools/times when more food than necessary was ordered and not used

Scope

The review and analysis included data and information from production records and edit check data for the School Year 2011 - 2012.

Methodology

Meals recorded on production records and total meals claimed on the edit checks were analyzed.

In the analysis, the following assumptions and rules were established:

- No data substitutions allowed (if data were not recorded on the production records, FMS documented this information as "missing.")

The methodology was applied to ten DCPS locations managed by the FSMC. A judgmental sample was selected to include production kitchen schools, cooking kitchen schools, and satellite kitchen schools.

The production records for one month from each quarter of the 10 month school year were tested including September 2011, November 2011, and February 2012. Production records for each meal program - breakfast, lunch, and supper - were examined. Data from each "hand written" or manual produced production record were compared to the OFNS Point-of-Sale system data (also known as Edit Check Data).

4.2 FINDINGS

In the majority of the periods, it was noted that the Point-of-Sale system documents a different number of meals served than that reported by the daily hand written production records. The number of unrecorded meals for the breakfast, lunch and supper program raises several areas of concern or deficiencies with the existing FSMC controls over inventory and ordering procedures including:

- Edit check data from the point-of-sale system maintaining inaccurate information;

- Production records that were inaccurate, incomplete, unavailable, or non-existent

4.3 RECOMMENDATIONS

- There should be increased internal control over production record completion through oversight and continuous monitoring
- There is a need for an automated inventory management system to create stronger controls over food inventory and supplies
- There should be extensive review of all production records to determine the extent of unrecorded meals
- There must be a substantial penalty clause covering discrepancies in the number of meals claimed and billed
- The FSMC must review and reconcile edit checks to production records daily, weekly and/or monthly and the reconciliation must be submitted to DCPS
- The FSMC must certify the reconciliation of edit checks to production records upon submission to DCPS
- There is a need for Standard Operating Procedures (SOP) regarding the completion of production records, operation of the Point-of-Sale system and/or compliance with the same

TASK #5.0 EXPENSE AND OTHER CHARGES ANALYSIS

5.1 OBJECTIVE

The objective was to conduct an audit of food, labor, equipment, and other large expenses to determine if additional reimbursements were necessary. DCPS required completion of the following tasks:

- Review invoices and identify charges not authorized by the contract
- Review Dunbar Armored Car Service records

Background

To minimize the risk to the DCPS, the food services contract was structured with a Guaranteed Minimized Loss target, based on fixed price and cost reimbursable components.

Over the past 4 years, there has been a significant amount of correspondence between the FSMC and DCPS. Some of this correspondence addressed pricing issues and are not unusual for this type of contract. The FSMC in several instances proceeded on the basis of communications to implement its understanding. One instance occurred where the management fee was reduced to offset the late payments by DCPS of the FSMC's invoices.

Scope and Methodology

This review covered the period from the inception of the contract through June 30, 2012; consisting of the base year and 3 option years. In coordination with DCPS, the FSMC was required to provide the required information on a timely and complete basis to facilitate the review.

Our review required us to examine the contract, modifications, correspondence, and related documentation to determine the presence of any irregular charges and the contractual basis, if any, for these charges.

5.2 DISCUSSION

The Profit and Loss Statement

A Profit and Loss Statement (P&L) accompanied each invoice and included the meal count for the month. It also reflected revenue for the month including special income, adult meals, and reimbursements. The P&L was not structured according to the categories that were shown in the awarded contract and the FSMC's cost proposal. See Table 5-1 for the variations. Rebates and discounts were shown separately in the P&L. The importance of highlighting the difference between the presentation of the

invoice and the contract is critical to understanding the difficulty of comparing accumulated actual cost to the contract budget.

Over the past 4 years, the P&L format and some account titles have changed. The P&L is dated in a way identical to the GL and presents similar difficulties caused by the dating system. There was no crosswalk that provided a reconciliation of differences between amounts on the invoices and the related lines on the P&L.

Table 5-1: Category Comparison

TITLES PER the FSMC's CONTRACT	TITLES PER the FSMC's INVOICE
Cash Sales	Not Provided
Reimbursement Income	Not Provided
TOTAL INCOME	
EXPENSES	
Total Food Cost	Gross Product Cost
Not Stated	Less Total Rebates
Not Stated	Net Product Cost
FSMC Hourly Wages	Total Direct Labor Costs
FSMC Fringe Benefit Cost	Not Provided
FSMC Management Labor Cost	Total Supervisory & Clerical Labor Costs
Direct Cost	Total Other Costs
FSMC Administrative Fee	Administration and Management Fee Expense
FSMC Management Fee	Not separated
Not Stated	Other Revenues
TOTAL EXPENSES	NET OPERATING COST (amount due FSMC)
Guaranteed Minimized Loss	

Reconciling Invoice to the P&L Statement

Table 5-2 shows how line items from the P&L statement were used to prepare the invoice to DCPS. The code column represents a code given to each line item in the invoice shown in Table 5-2. The Description per column represents descriptions for line items in the P&L (as shown on the pages which follow Table 5-2). Each amount is included to show how amounts from the P&L correspond to the invoice.

FSMC Invoice (with FMS Reconciliation to the P&L inserted)

Page 1 of 1

INVOICE



Bill To: DC Pub (A)
3535 V Street NE
WASHINGTON DC 20018

Remit To: CHARTWELLS
Compass Group USA
PO Box 91337
Chicago IL 60693-1337

Terms	Customer No.	Date	Invoice Number
Due Net 30 Days	F200740000 (D)	January 31, 2012 (C)	X200740412

For month: 4 beginning January 01, 2012 through January 31, 2012 (D)

Gross Product Cost	1,670,567.14 (P)
Total Rebates	(174,193.84) (Q)
Net Product Cost	1,496,373.30 -
Total Direct Labor Costs	1,312,665.58 (S)
Total Supervisory & Clerical Labor Costs	151,218.94 (T)
Total Other Costs	204,876.56 (U)

Administration and Fee Expense	97,237.70 (V)
Other Revenues	(18.00) (W)

NET OPERATING COST 3,262,354.08 (Y)

PLEASE REMIT THE ABOVE AMOUNT

Reconcile P&L to Invoice	
Net Loss per P&L	\$887,837.08
Less - V Street Rent - a/c #790011	(\$2,998.00)
Less - Courtesy Meals - a/c #790017	(\$9,123.99)
*Commodity Value - a/c #700400	\$0.00
Add back Total Sales	\$2,386,638.99
Invoice Amount	\$3,262,354.08
* Not included in P&L totals	

Table 5-2 Reconciling FSMC's Invoice to FSMC's P&L Statement

Code	Description	Amount
	Sales	(2,386,638.99)
P	Product & Paper Cost	1,670,567.14
Q	Total Discounts/Rebates	(174,193.84)
S	Total Direct Personnel	1,312,665.58
T	Sup/Clerk Personnel	151,218.94
U	Total Other Semi-Var Costs	216,998.55
V	Fee -Admin	90,000.00
V	Fee -Management	7,237.70
W	Other Revenue	(18.00)
X	Client(sales) Offset	2,374,517.00
Y	Net Operating Cost - Total Invoice	3,262,354.08

The tables which follow show the P&L statement and line items associated with Table 5-2.

- 1) Total Sales
- 2) P - Product & Paper Cost
- 3) Q - Total Discounts/Rebates
- 4) S - Total Direct Personnel
- 5) T - Supv/Clerk Personnel
- 6) U – Total Other Semi-Var Cost
- 7) V – Fee Admin
- 8) V – Fee Management
- 9) W – Other Revenue
- 10) X – Client (sales) Offset
- 11) Y – Net Operating Cost – Total Invoice

P&L Statement (page 1 of 5)

Report : ZPPF-001		Compass Group USA		Profit Center/Group: IDCPUBLIC		
User ID: BTC_FINSYS		Final Client Operating Statement		DC Public Schools		
Date : 02/08/2012		Specialty P&L		Profile : *		
Time : 04:01:27		Compass Period 4, 2012		DM: *		
Page : 1 of 5		First Month of Client Calendar Year: 9				
City : *		January 31, 2012				
State : *						
	Current Period		Prior Period		Year-To-Date	
	Actual	Ct/Meal	Actual	Ct/Meal	Actual	Ct/Meal
700010 Type A Regular	94,365	10.0	73,361	11.2	628,949	14.3
700020 Type A Reduced	30,705	3.3	21,817	3.3	115,792	2.6
700030 Type A Free	344,989	36.7	230,482	35.0	1,446,147	33.0
700040 Type A Adult	923	0.1	738	0.1	2,557	0.1
700050 Student A la Carte	2,261	0.2	1,639	0.2	3,900	0.1
TOTAL LUNCH COUNT	473,243	50.3	328,037	49.9	2,197,345	50.1
790126 Free Snacks	1,943	0.2	1,336	0.2	(18,599)	(0.4)
TOTAL SNACKS	1,943	0.2	1,336	0.2	(18,599)	(0.4)
700100 Breakfast Paid	62,451	6.6	45,176	6.9	417,046	9.5
700110 Breakfast Reduced	20,431	2.2	14,232	2.2	81,455	1.9
700120 Breakfast Free	246,345	26.2	170,660	25.9	1,024,639	23.4
TOTAL BREAKFAST COUNT	329,227	35.0	230,068	35.0	1,523,140	34.7
777840 Dinner Meals	135,786	14.4	98,423	15.0	683,632	15.6
TOTAL OTHER COUNT	135,786	14.4	98,423	15.0	683,632	15.6
TOTAL MEAL COUNT	940,199	100.0	657,864	100.0	4,385,518	100.0
700300 Student Type A	48,164.75	5.1	45,457.20	6.9	263,223.31	6.0
700310 Student A la Carte	6,106.00	0.6	4,080.55	0.6	14,936.70	0.3
700320 Adult Type A	2,491.00	0.3	1,838.00	0.3	9,101.25	0.2
700360 Reimbursements	2,214,095.54	235.5	1,290,642.37	196.2	9,139,020.20	208.4
700361 Special Income	115,781.70	12.3	81,730.92	12.4	571,477.73	13.0
SALES	2,386,638.99	253.8	1,423,749.04	216.4	9,997,759.19	228.0
NET SALES	2,386,638.99	253.8	1,423,749.04	216.4	9,997,759.19	228.0
TOTAL SALES	2,386,638.99	253.8	1,423,749.04	216.4	9,997,759.19	228.0
411045 Miscellaneous Food	1,577,745.21	167.8	1,135,846.95	172.7	8,523,317.73	194.4
PRODUCT COST	1,577,745.21	167.8	1,135,846.95	172.7	8,523,317.73	194.4
411075 Paper Supplies	92,821.93	9.9	53,140.06	8.1	416,954.76	9.5
PAPER COST	92,821.93	9.9	53,140.06	8.1	416,954.76	9.5
PRODUCT & PAPER COST	1,670,567.14	177.7	1,188,987.01	180.7	8,940,272.49	203.9
411162 Beverage Income	28.82	0.0	4.28	0.0	188.10	0.0
NATL BEV REBATES	28.82	0.0	4.28	0.0	188.10	0.0
411160 Billed Food Income	37,537.46	4.0	66,982.57	10.2	321,370.85	7.3
411161 Direct Food & Vend I	2,732.38	0.3	4,561.49	0.7	19,872.48	0.5
411163 Non Food Income	1,363.11	0.1	2,050.60	0.3	29,837.69	0.7
411164 Distribution Income	91,766.63	9.8	101,322.55	15.4	527,402.51	12.0
411166 Other Purchasing Inc	0	0.0	0	0.0	0.15	0.0
NATL NON BEV REBATES	133,399.58	14.2	174,917.21	26.6	898,483.68	20.5

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Time : 04:01:27	Compass Period 4, 2012	*				
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City : *						
State : *						
	Current Period	Prior Period	Year-To-Date			
	Actual	Ct/Meal	Actual	Ct/Meal	Actual	Ct/Meal
411165 Local Income	40,765.44	4.3	49,979.38	7.6	126,050.65	2.9
LOCAL DISCOUNTS	40,765.44	4.3	49,979.38	7.6	126,050.65	2.9
TOTAL DISCOUNTS/REBATES	174,193.84	18.5	224,900.87	34.2	1,024,722.43	23.4
NET PRODUCT COST	1,496,373.30	159.2	964,086.14	146.5	7,915,550.06	180.5
GROSS PROFIT	890,265.69	94.7	459,662.90	69.9	2,082,209.13	47.5
700400 Commodity Value	70,828.75	7.5	121,527.20	18.5	594,396.49	13.6
COMMODITY VALUE	70,828.75	7.5	121,527.20	18.5	594,396.49	13.6
MEMO ONLY						
610700 Wages - Hourly	827,708.81	88.0	554,451.44	84.3	4,009,660.29	91.4
611100 O/T Wages Food	484.84	0.1	8,697.22	1.3	19,170.26	0.4
611120 Temporary Services	2,542.94	0.3	269,070.16	40.9	458,179.18	10.4
611149 CLIENT REIM LABOR	0.00	0.0	0.00	0.0	1,258.10	0.0
611302 Holiday Pay Direct	134,405.80	14.3	349,899.91	53.2	610,212.34	13.9
611400 Sick Pay Direct	30,792.66	3.3	38,609.63	5.9	136,715.03	3.1
DIRECT LABOR	995,935.05	105.9	1,220,728.36	185.6	5,235,195.20	119.4
612200 Personnel Cost Othr	0	0.0	0	0.0	3,091.10	0.1
612202 Workers Comp Direct	84,976.17	9.0	81,454.73	12.4	408,712.65	9.3
612400 Payroll Taxes	162,086.70	17.2	98,401.65	15.0	480,949.29	11.0
612404 PR Taxes & Benefits	0	0.0	0	0.0	927.33	0.0
612600 P/S Contribution	1,197.87	0.1	1,722.00	0.3	6,340.56	0.1
DIRECT FRINGE	248,260.74	26.4	181,578.38	27.6	900,020.93	20.5
612227 Grp Ins Self Direct	41,483.16	4.4	52,221.60	7.9	250,018.96	5.7
612228 Grp Ins Othr Direct	26,986.63	2.9	52,068.69	7.9	143,436.77	3.3
DIRECT GROUP INSURANCE	68,469.79	7.3	104,290.29	15.9	393,455.73	9.0
TOTAL DIRECT PERSONNEL	1,312,665.58	139.6	1,506,597.03	229.0	6,528,671.86	148.9
GROSS MARGIN	(422,399.89)	(44.9)	(1,046,934.13)	(159.1)	(4,446,462.73)	(101.4)
610701 Management Food Labo	107,138.51	11.4	106,461.75	16.2	543,160.25	12.4
610799 Payroll Claims	(800.00)	(0.1)	0.00	0.0	0.00	0.0
611103 O/T Other	0.00	0.0	23.42	0.0	23.42	0.0
611303 Holiday Pay Semi-V	645.68	0.1	385.36	0.1	1,031.04	0.0
611401 Sick Pay Semi-V	0.00	0.0	43.71	0.0	168.59	0.0
611602 Vacation Pay Semi-V	128.64	0.0	0.00	0.0	3,925.23	0.1
SUPV/CLERK WAGES	107,112.83	11.4	106,914.24	16.3	548,308.53	12.5
612205 Personnel Cost Othr	5,880.66	0.6	6,140.35	0.9	30,350.73	0.7
612207 Workers Comp Semi-V	9,371.30	1.0	9,188.84	1.4	47,171.95	1.1
612401 Payroll Taxes - Semi	17,377.02	1.8	9,775.91	1.5	52,926.69	1.2
SUPV/CLERK FRINGE	32,628.98	3.5	25,105.10	3.8	130,449.37	3.0
612270 Grp Ins Self Semi-V	11,554.68	1.2	11,107.19	1.7	57,773.98	1.3

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City : *							
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		Current Period		Prior Period		Year-To-Date	
		Actual	Ct/Meal	Actual	Ct/Meal	Actual	Ct/Meal
612271	Grp Ins Othr Semi-V	(77.55)	(0.0)	987.96	0.2	805.20	0.0
	SUPV/CLERK GRP INSURANCE	11,477.13	1.2	12,095.15	1.8	58,579.18	1.3
	SUPV/CLERK PERSONNEL	151,218.94	16.1	144,114.49	21.9	737,337.08	16.8
	TOTAL PERSONNEL	1,463,884.52	155.7	1,650,711.52	250.9	7,266,008.94	165.7
626303	Lease Vehicle Exp	3,060.24	0.3	1,746.14	0.3	9,743.32	0.2
655200	HrdwropleaseUnit	2,716.50	0.3	3,148.10	0.5	17,528.06	0.4
	RENT EXPENSE	5,776.74	0.6	4,894.24	0.7	27,271.38	0.6
626100	Depr Vehicle	6,206.50	0.7	7,758.12	1.2	34,135.75	0.8
651030	Amort Client Invest	66,153.85	7.0	82,692.31	12.6	363,846.16	8.3
	DEPRECIATION	72,360.35	7.7	90,450.43	13.7	397,981.91	9.1
665005	Merchandising	0.00	0.0	206.70	0.0	206.70	0.0
	ADVERTISING	0.00	0.0	206.70	0.0	206.70	0.0
626200	Other Vehicle Exp	7,484.89	0.8	6,037.80	0.9	37,284.88	0.9
626201	Vehicle Genl Repair	849.17	0.1	561.92	0.1	5,980.86	0.1
626202	Gas & oil Expense	7,395.89	0.8	4,846.52	0.7	29,132.90	0.7
681011	M&E Fully Deduct	0	0.0	0	0.0	34.82	0.0
	TRAVEL	15,729.95	1.7	11,446.24	1.7	72,433.46	1.7
659000	Postage/Freight	834.98	0.1	717.13	0.1	15,178.17	0.3
678000	Telephone	3,894.87	0.4	4,573.21	0.7	20,264.26	0.5
	COMMUNICATION	4,729.85	0.5	5,290.34	0.8	35,442.43	0.8
612300	Outside Services	12,700.31	1.4	5,568.62	0.8	33,016.32	0.8
	OUTSIDE SERVICES	12,700.31	1.4	5,568.62	0.8	33,016.32	0.8
645208	Kitchen Supplies	183.49	0.0	24,452.48	3.7	27,756.84	0.6
645300	Maint office Equip	18.00	0.0	18.00	0.0	90.00	0.0
674700	Office Supplies	4,590.64	0.5	3,492.99	0.5	21,459.76	0.5
674701	Printing	3,844.99	0.4	2,036.19	0.3	25,609.76	0.6
	PARTS & SUPPLIES	8,637.12	0.9	29,999.66	4.6	74,916.36	1.7
639000	Insurance Other	61,164.27	6.5	71,334.17	10.8	296,723.12	6.8
676300	Other Tax/License	0.00	0.0	0.00	0.0	3,680.60	0.1
	TAXES & INSURANCE	61,164.27	6.5	71,334.17	10.8	300,403.72	6.8
674102	Cleaning Supplies	13,299.75	1.4	7,062.73	1.1	62,999.71	1.4
674104	Uniforms	27.84	0.0	44,830.90	6.8	45,284.74	1.0
	LAUNDRY & CLEANING	13,327.59	1.4	51,893.63	7.9	108,284.45	2.5
790017	Client Cash o/s	9,123.99	1.0	9,914.55	1.5	95,140.20	2.2
	OVER & SHORT	9,123.99	1.0	9,914.55	1.5	95,140.20	2.2
612311	Recruiting	0.00	0.0	0.00	0.0	(1,730.00)	(0.0)
673000	Miscellaneous	9,712.70	1.0	9,712.70	1.5	48,476.58	1.1
673011	Training	323.00	0.0	1,937.23	0.3	7,286.17	0.2
673026	Merchandising Matls	414.68	0.0	242.57	0.0	6,087.06	0.1
693012	Training	0	0.0	0	0.0	767.82	0.0
790011	Clients Misc	2,998.00	0.3	2,998.00	0.5	11,992.00	0.3

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City : *					
State : *					
		Current Period		Prior Period	
		Year-To-Date			
		Actual	Ct/Meal	Actual	Ct/Meal
OTHER DIRECT COSTS		13,448.38	1.4	14,890.50	2.3
TOTAL OTHER SEIM-VAR COSTS	(U)	216,998.55	23.1	295,889.08	45.0
TOTAL SEMI-VAR COSTS		368,217.49	39.2	440,003.57	66.9
693000 Admin charge		90,000.00	9.6	90,000.00	13.7
ADMIN FEE EXPENSE	(V)	90,000.00	9.6	90,000.00	13.7
695000 Mgmt Fee Expense		(32,982.95)	(3.5)	9,842.30	1.5
695005 Mgmt Fee Exp Sys		40,220.65	4.3	27,972.05	4.3
MANAGEMENT FEE EXPENSE	(V)	7,237.70	0.8	37,814.35	5.7
353032 Employee Meals		18.00	0.0	18.00	0.0
OTHER REVENUES	(W)	18.00	0.0	18.00	0.0
NET PROFIT/(LOSS)		(887,837.08)	(94.4)	(1,614,734.05)	(245.5)
CLIENT OFFSET	(X)	(2,374,517.00)	(252.6)	(1,410,836.49)	(214.5)
NET OPERATING COST		(3,262,354.08)	(347.0)	(3,025,570.54)	(459.9)
REMAINING UNBILLED COST	(Y)	(3,262,354.08)	(347.0)	(3,025,570.54)	(459.9)

P&L Statement (page 5 of 5)

Report : ZPPF-001		Compass Group USA		Profit Center/Group: 1DCPUBLIC	
User ID: BTC_FINSYS		Final Client Operating Statement		DC Public Schools	
Date : 02/08/2012		Specialty P&L		Profile : *	
Time : 04:01:27		Compass Period 4, 2012		DM: *	
Page : 5 of 5		First Month of Client Calendar Year: 9			
City : *					
State : *					
		Current Period		Prior Period	
		Year-To-Date			
		Actual	Ct/Meal	Actual	Ct/Meal
Operating Days	(X)	20	0	14	0

FSMC's Invoices

The FSMC submitted a monthly invoice to DCPS. There were 3 types of invoices submitted depending on the activity: (1) DCPS Main (2) DCPS Summer and (3) DCPS Catering. There was a primary contract (GAGA-2008-C-0134) which supported meals for regular and summer school with the respective FSMC customer numbers F20074000 and F216940000. The FSMC submitted separate monthly invoices for this contract using these 2 numbers. The summer invoices did not show rebates or discounts. Then there was a third invoice titled DC Catering whose relationship to the main contract and its funding source has not been reviewed.

The invoices, which were dated, either did not identify a preparation date or submission date which is important in many situations, including when determining if the presented invoice is an original or modification. The invoices did include a box that identified the month of performance. It is unlikely that DCPS personnel would have been able to identify the school month and year to which the P&L applied without assistance from the FSMC.

The numbers shown on the invoice were cross-referenced to the P&L according to the codes shown on both documents. See Table 5-2 above. There were some additional codes on the P&L identifying accounts that were not transferred directly to the invoice in an identifiable way because there is no reconciliation to the P&L accompanying each invoice.

For example, 700400 – Commodity Value (\$70,828.75) was not a part of any accumulated cost on the P&L.

Table 5-3 Memo Balance in P&L

Code	Acct #	Item	Amount
R	700400	Commodity Value	70,828.75

This amount is excluded from the invoice.

Also 790011 – Client Misc. represented rent for V Street that was credited back on the invoice in way that requires reconciliation for verification.

Table 5-4 Reconciling Gross Sales to Client Offset

Client Offset Reconciliation				
Code	Acct #	Item	Description	Amount
		Sales - Gross		2,386,638.99
	790011	Client Misc	V Street Rent	(2,998.00)
	790017	Client Cash O/S	Moved to DC Catering	(9,123.99)
X		Sales - Offset		2,374,517.00

To achieve this reconciliation, schedules such as shown in Table 5-3 and 5-4 above should have been prepared by the FSMC as an accompanying supporting document for each invoice.

The third invoice submitted monthly with customer number F203320000 and had a related P&L showing rebates, labor, food equipment and other miscellaneous expenditures. From November 2008 through May 2012, in excess of \$4 million were billed by these invoices. For this report, this amount was excluded from the Guaranteed Minimized Loss analysis. There was possible reference to this contract in the letter of December 14, 2011 (Paragraph 10) from the FSMC to DCPS. There was no firewall between the DC Catering activities and the main contract. There were indications that at least 4 offsets were proposed between the main DCPS contract invoices and the DC Catering activity. In these instances the offsets were proposed to be applied under Section B.1.13.1 (Guaranteed Minimum Loss guaranty) in lieu of the FSMC writing a check to DCPS.

DCPS General Ledger

The FSMC maintained a general ledger (GL) for the DCPS contract that contained the detailed transactions for the accounts that comprised each budget line item. The GL was the basis for the P&L, which was submitted with each invoice. A major obstacle to analyzing the transactions that support the invoices is that the FSMC personnel did not control all transactions entered into the ledger to provide sufficient information. Some of these accounts are controlled by corporate. The corporate office also made postings to or provides the entries for the GL. The entry for rebates is one example.

The general ledger does not show the applicable DCPS school period it covered. Rather it had a date which was identified as a run-date and also a FSMC accounting cycle date which allowed the FSMC staff to determine the applicable calendar month and year. In addition, the FSMC's own accounting cycle changed during the 4 years of the contract making this method difficult unless a crosswalk is used. A crosswalk was requested but not provided.

Table 5-5 below shows the accounts that are not controlled by the local FSMC staff, but by the corporate office. The local staff deferred questions related to these accounts to their corporate office. Most of these accounts are critical in determining potential additional reimbursements.

Table 5-5 – Accounts Not Controlled by Local FSMC Office

ACCOUNT NUMBER	ACCOUNT ID
695005	Management Fee
695000	Management Fee
693000	Administrative Fee
639000	Insurance - Other
626202	Vehicle – Gas and Oil
626201	Vehicle – General Repair
626303	Vehicle Leases
626100	Depreciation Vehicle
651030	Amortization – Capital

	Expenditures
655200	Computer Equipment Leases
411162, 411160, 411161, 411163, 411164, 411166, 411165	Rebates
All	Compensation – all (except 611120- Temps)

5.3 FINDINGS

5.3.1 – Capital Equipment Rebates

The largest purchases under the Capital Equipment Investment as specified in the contract were made at two vendors, Singer and Denver Equipment. No rebates or allowances were identified as coming from these vendors and the FSMC confirmed that there were no rebates earned on equipment purchases. In addition, there were additional equipment related and other purchases charged separately to DCPS under a separate Task Order #323133 (customer number F203320000).

5.3.2 – Allocation of Expenses

In reviewing the general ledger that supports the invoices, there were expenses representing direct DCPS expenditures paid by the FSMC. There were others that represent allocations from the FSMC corporate or that were posted by the corporate office of the FSMC.

5.3.3 – Appropriateness of Expenses

In the normal course of business, there are certain accounts such as cell phones, travel, lodging and meals that require careful monitoring. In reviewing the general ledger, there are several entries to these accounts that require further analysis regarding the appropriateness and reasonableness of the expenses. It is unclear if the DCPS contract provided for these personal expenditures being charged to the DCPS food services contract.

5.3.4 – Revenue Shortfall

The contract specifies revenue goals. The FSMC failed to meet these goals in each of the 4 years of performance. There were deficiencies with both the Point-of-Sale (POS) system and compliance with the nutritional standards that may have caused lower reimbursement.

5.3.5 – Commodity Usage

The FSMC did not use a measurable amount of commodities provided by the USDA in the Base Year of the contract. In each of the following 3 option years, the amount of commodity usage exceeded \$1 million.

5.3.6 - Dunbar Armored Car Service

The FSMC reported and OFNS agreed that the Dunbar Armored Car Service is a contract between Dunbar and the DC Treasurer and therefore the FSMC has limited responsibility in this area.

5.3.7 Living Wage Adjustment

With its proposal in response to the solicitation, the FSMC submitted its pricing which included its labor cost. After award of the contract, the FSMC became aware that some of its employees were being paid below the required Living Wage standard. Its attempts to get DCPS to make a price adjustment to the contract or to issue reimbursements for the increased payroll costs were denied. The computation of the back pay, which should be excluded from reimbursement, need further review based on detailed evaluation of each existing covered employee up to the expiration of the FSMC's contract.

5.4 RECOMMENDATIONS

5.4.1 - Classification of Accounts

Our findings indicate that accounts on the invoice were not classified to reflect the structure in the budget (cost proposal). Account classification structures varied between books, records, and its invoices. These matters go to the interpretation of critical sections of the contract and the contract modifications. A consistent classification of accounts will allow a more precise determination of charges and reimbursements. The invoice and P&L provided by the FSMC need to be easily traceable on a line by line basis.

5.4.2 - Modifications to the Contract

In reviewing the material related to the contract and discussions with DCPS and the FSMC, it is clear that there were changes to the contract that were approved through bilateral modifications. These changes affected the price that DCPS paid for the services provided under the contract. The contract clearly stated that these changes must be approved by the Contracting Officer only and by modification to the Contract. There have been 24 modifications to the contract to date and none of these support some of the changes made by the FSMC as reflected on its invoices. In some instances, the FSMC proceeded to implement changes on the basis of its correspondence to DCPS, and not on the basis of an approved modification to the contract. For example, the management fee has varied several times during the 4 years. Also, the administrative fee switched to the amount in the Provision 2 budget without evident documentation.

5.4.3 - Capital Equipment

The FSMC has to provide the basis for purchases under the separate contract/task. In addition, the FSMC must keep separate records for each school and complete records of capital equipment purchases which identify

the school where the equipment was placed. The current practice of maintaining a single chronological record is not adequate.

5.4.4 - Allocation of Expenses

The FSMC needs to provide work papers supporting indirect costs that were allocated so that DCPS will be able to review the methodology and determine if the allocations were proper.

5.4.5 – Appropriateness of Expenses

The corporate office of the FSMC needs to provide work papers that support these indirect entries so that an adequate review may be made. Work papers supporting the charges for personnel expenses should be reviewed, including cell phone bills, hotel reservations, travel itinerary and similar documents.

5.4.6 – Revenue Shortfall

The FSMC needs to provide full reports and analysis on a regular basis of the missed revenue targets and to ensure that the reports are filed accurately and timely. As schools transition to Provision 2 status, the FSMC should coordinate with DCPS to review the FSMC's invoices which are based on a mixture of Provision 2 and Non-Provision 2 schools.

5.4.7 – Commodity Usage

Future monitoring has to ensure that DCPS is maximizing its usage of USDA commodities. Targets should be set and measured during contract performance.

5.4.8 - Aligning the Actual Cost to the Actual Number of Meals Served

In the future, the level of monitoring and reporting has to be intensified in depth and in frequency. It will be necessary for DCPS to implement a more effective monitoring system as specified in Section B.18 of the contract which stated:

B.18.1 DCPS shall conduct a quarterly internal review of all records and documentation associated with the procurement of food and non-food items to ensure the contractor is complying with all applicable competitive procurement procedures according to 7 CFR Parts 3016 and 3019. The contractor shall properly credit DCPS' food service account monthly for all discounts, rebates and allowances received by the contractor from the purchase of goods and services on behalf of DCPS. All costs charged to DCPS must be net of all discounts, rebates and allowances received by the contractor. The cost reduction shall be shown on the monthly invoice or operating statement as a credit or reduction to the amount billed to DCPS. In turn, DCPS must ensure that the food service account is being credited for these entitled discounts, rebates and allowances.

B.18.2 The contractor shall maintain such records (supported by invoices, receipts, or other evidence) as DCPS will need to meet monthly reporting responsibilities and shall submit monthly operating statements in a format approved by DCPS no later than 15 calendar days of the succeeding month in which services were rendered. Participation records shall be submitted in a timely manner to facilitate claims submission no later than the tenth (10th) day of the succeeding month in which services were rendered. DCPS shall perform edit checks on the participation records provided by the Contractor prior to the preparation and submission of the claim for reimbursement.

Additionally, modifications that are made to the contract should follow the budget standard established in the contract, both as to form, content and clarity. Failure to do so will make it difficult to reconcile actual performance to the contract. Each modification should completely restate the budget and include the net effect of the modification on each line item.

5.4.9 - Dunbar Armored Car Service

The Dunbar operation needs to be streamlined with specific responsibilities and reporting adequately documented in a modification to the contract. A review of the rebate information provided by the FSMC indicates that DCPS received rebates from Dunbar Armored through the FSMC.

The Dunbar Armored Car contract requires improved planning and monitoring. The invoice from Dunbar is paid outside of the DCPS/FSMC umbrella. DCPS needs to ensure that appropriate reviews are performed certifying that the charge for pickups according to the Dunbar invoice match the scheduled pickups. The certifying process would include examining the pickup slips that are left at each school, and possibly forwarded to DCPS/DC Treasurer when a pickup is made.

In addition, a process has to be put in place to ensure that the frequency of a pickup does not cost in excess of the value of the pickup, e.g. where the amount picked up is less than the \$70 charge for pickups.

5.4.10 - Living Wage Adjustment

The FSMC and DCPS should complete their negotiations as to the living wage adjustment liability for all contract years (past, current and future years) based on its proposal commitments.

Payroll records will have to be provided to determine the amount of the reimbursement (if any) as a result of incorrect billing for the FSMC's component of the adjustment for years through the present.

TASK #6.0 GUARANTEED MINIMIZED LOSS ANALYSIS

6.1 OBJECTIVE

Conduct a review of all alterations of the Guaranteed Minimized Loss (GML) to determine if FSMC followed the proper procedures and only made modifications in keeping with the terms and conditions of the Contract, and if the FSMC should repay the District any additional fees that may be due because of improper modifications. DCPS required FMS to complete the following tasks:

- Read and review the FSMC contract;
- Compare GML to actual loss;
- Determine if the FSMC followed appropriate procedures in determining the actual loss (if it is differed from the GML) by reviewing the procedures set by the contract

Background

To minimize costs to DCPS, the food services contract awarded to the FSMC was structured with a Guaranteed Minimized Loss target, based on fixed price and cost reimbursable components.

Consistent with Section B.13.1 of the contract, the agreed Guaranteed Minimized Loss (GML) for the FSMC contract required adherence to the referenced Non-Provision 2 budget for the base and options years unless modified. However, a budget for Provision 2 status was included in the contract for all contract years. These budgets were not presented to show incremental achievement of Provision 2 status on the budget for similar formulation. None of the 24 modifications to the contract specifically reflect a transition to the Provision 2 budget as the billing model. However Modification #20 reduced the GML based penalty for Option Year 2 (SY 2010-2011), limiting it to the earned management fee only and not all 3 of the penalty factors prescribed in the contract.

The GML has a precisely defined structure in the original contract showing each line item for each year. However the subsequent modifications do not adhere to this format. Neither did the invoice structure adhere to this format. One component of the GML is the Management Fee which is based on the total meal count. None of the modifications updated the meal count and therefore the impact on the Management Fee. As such, the invoices submitted by the FSMC do not lend themselves to rigorous analysis relative to the Non-Provision 2 budget because the lines on the invoice do not match the budget. Although some of the detail is included in the attached P&L for each month, it should be clearly structured on the face of the invoice.

In each contract year, the GML exceeded the budgeted amount. However, the only budget items that were not exceeded were the Administrative Fee and the Management Fee. Consequently, DCPS had to provide subsidies far in excess of the GML for each contract year.

The contract was effective as of June 2008. Over the 45 months of the contract through May 2012, the actual GML (unaudited) stood at \$48.3 million. The GML was budgeted at \$22 million for the full 45 months through the end of Option Year 3- June 2012.

Scope

The determination covers the period from the inception of the contract through May 31, 2012; consisting of a base year and 3 option years. In coordination with DCPS, the FSMC is required to provide necessary information on a timely and complete basis.

6.2 DISCUSSION

The budget structure established in the contract is well suited to ensure adequate performance measurement. As previously discussed, the invoices do not conform to this budget structure. Budget line items are combined and cost elements are captured in different categories. For example, FSMC Administrative Fee and FSMC Management Fee are combined on the invoices and the FSMC combined Hourly Wages and Fringe Benefit Costs (see Table 6-1). While it is clear that the GML was exceeded, it would be beneficial to determine the variances in each budget line item.

Table 6-1: Budget Structure per Contract

BUDGET LINES PER CONTRACT	BUDGET LINES PER INVOICE
Cash Sales	Gross Product Cost
Reimbursement Income	Total Rebates
	Net Product Cost
TOTAL INCOME	
	Total Direct Labor Costs
EXPENSES	Total Supervisory & Clerical Labor Costs
Total Food Cost	Total Other Costs
FSMC Hourly Wages	Administration and Fee Expense
FSMC FringeBenefit Cost	Other Revenues
FSMC Management Labor Cost	
Direct Cost	NET OPERATING COST (Invoice claim)
FSMC Administrative Fee	
FSMC Management Fee	
TOTAL EXPENSES	
Guaranteed Minimized Loss	

Documentation of Modifications

The GML analysis is affected by several contract modifications. Over the years, there have been 24 modifications to the contract as shown below in Table 6-2. Our limited mandate did not allow us to fully determine all of the details of and rationale for all of the modifications. Our approach, therefore, was to use the aggregate modification without regard to its impact on each budget line item and the meal count.

A comparison should be finalized for each contract year showing the revised budget, net of modifications, and the meal count.

For example, the body of Modification #20 does not identify the rationale or the detail behind the \$342,307 reduction in Administrative Fee and Management Fee. It is difficult to accurately determine separately either the Administrative Fee or the Management Fee for the full contract term without this information. Also in Modification #20, there is language indicating a fundamental change in the structure of the GML penalty applicable to the FSMC; the payback will now not exceed the earned management fee only. Previously the penalty ceiling was the Administrative Fee, the Management Fee and an additional out of pocket penalty of \$1,000,000.

Table 6-2: Modifications Changing Costs

Modification	Period	Action
13	SY2008/2009	Reduced schools from 148 to 123
13	SY2008/2009	Reduced expenses by \$1,468,959
13	SY2009/2010	Reduced schools from 123 to 121
13	SY2009/2010	Reduced expenses by \$714,794
14	SY2010/2011	Reduced schools from 121 to 105
14	SY2010/2011	Reduced expenses by \$2,431,515
20	SY2010/2011	Increased expenses by \$4,854,893
20	SY2010/2011	Lower administrative and management fee

Fees

The GML analysis is affected by changes made to the Management Fee and the Administrative Fee that are not documented in the modification. The language in the body of Modification #20 indicates that the changes are limited to Option Year 2. However, the reduced Administrative Fee of \$900,000 (Provision 2) is used on the invoices for every succeeding contract year, rather than the \$1,000,000.

The invoices submitted by the FSMC reflect 14 different rates for the Management Fee. Other than a reference by the FSMC staff to the fee being adjusted for late payment of invoices by DCPS, no additional explanation of the unit charge was provided.

Additional Observations

Meals & Other Charges

- The number of meals served is the basis for one component of the payments to the FSMC. There are documented instances of multiple deficiencies in the meal count process, some of which still exist, e.g. remote count of meals served where the count does not occur at the exact time the meal is served to the student. In essence, the meal count process is unreliable even in consort with the production record.

Invoice

- Invoice structure not clearly defined in contract (minimum instructions)
- Handling of humanitarian meals, rents, and non-routine meals was not readily identifiable
- The recording of expenses, purchases, and adjustments to invoices was not clearly identifiable
- Payments of penalties using invoice offsets were not tracked on the specific invoices.
- Offsets should be used infrequently.
- A direct payment by the FSMC to DCPS provides a better audit trail.

Profit and Loss Statement

A profit and loss statement is provided each month to support the invoice. There is no additional documentation included with the invoice that would aid in reconciliation and the proper analysis and approval of the invoice. The FSMC's Controller working under the DCPS contract, does not maintain all general ledger accounts. Certain transactions are posted by the FSMC's corporate office. Some entries are routine while others are not. Examples are rebates, computer rental, insurance, automobile rental and repair, and capital equipment amortization. In its proposal, the FSMC promised a comprehensive accounting program that provides timely reports, and dovetails with USDA and DC requirements. (C.12.2).

6.3 FINDINGS

Revenue Expenditure and Meals Claimed

The actual total revenue shows a \$19.4 million shortfall compared to the budget. Although the meal count was 14.7 million meals below the budget, actual expenses including product costs exceeded the budget by wide margins. The actual loss of \$48.3 million is more than \$26 million above targeted GML. Had the full range of penalties been enforced by DCPS, the subsidy required by DCPS would still be above \$16 million for the period.

FSMC Payback Credits to DCPS

Based on correspondence between DCPS and the FSMC and according to DCPS representatives, a credit for the payback was issued to DCPS in the base year and in option year 1.

- In the base year, the credit was shown as a reduction to the FSMC's May 2009 invoice entitled "Less Contractual Guarantee" in the amount of \$2,609,703.
- In option year 1, the FSMC issued a check to DCPS in the amount of \$1,642,798 for the payback.
- The payback for Option Year 2 & 3 is currently being reconciled.

Actual credits and payments made by the FSMC to DCPS for the contractual guarantee require further verification and validation.

Gross Loss Details:

Table 6-3: Losses for all school years 2008-2012

	Per Award	Modification	FINAL BUDGET	Regular School	Summer School	ACTUAL	Variance
Meals Served	49,761,070		49,761,070	34,161,624	681,213	34,842,837	(14,918,233)
Sales	\$19,887,063		\$19,887,063				
Reimbursement Income	\$69,892,517		\$69,892,517				
Sales	Note 2			\$68,615,157	\$1,760,110	\$70,375,267	
TOTAL INCOME	\$89,779,580		\$89,779,580	\$68,615,157	\$1,760,110	\$70,375,267	(19,404,313)
EXPENSES							
Total Food Cost	\$42,067,797		\$42,067,797		\$234,734	\$234,734	
Product & Paper Cost	\$0			\$47,429,716	\$718,983	\$48,148,699	
FSMC Hourly Wages	\$30,068,660		\$30,068,660	\$47,917,688	\$931,220	\$48,848,908	
FSMC FringeBenefit Cost	\$16,267,294		\$16,267,294				
FSMC Management Labor Cost	\$5,771,079		\$5,771,079	\$6,259,122	\$84,296	\$6,343,418	
Direct Cost	\$9,026,422		\$9,026,422				
Semi-Variable Cost	\$0			\$10,574,602	\$40,704	\$10,615,307	
FSMC Administrative Fee	\$4,183,627	-\$160,900	\$4,022,727	\$3,710,000		\$3,710,000	
FSMC Management Fee	\$4,229,691	-\$181,407	\$4,048,284	\$2,487,403	\$61,222	\$2,548,625	
FSMC Management Penalty	\$0						
Modifications/Adjustments	\$0	\$581,934	\$581,934	(\$1,711,305)		(\$1,711,305)	
TOTAL EXPENSES	\$111,614,570	\$239,627	\$111,854,197	\$116,667,226	\$2,071,159	\$118,738,385	\$6,884,188
Gross Losses	(\$21,834,990)	(\$239,627)	(\$22,074,617)	(\$48,052,069)	(\$311,050)	(\$48,363,118)	(\$26,288,501)

See Table 6-4 below for computation of Total Invoices \$118,738,385

See Table 6-5 below for computation of Total Income \$70,375,267

Table 6-4: FSMC invoices for all school years 2008-2012

District of Columbia Public Schools

FSMC Contract GAGA-2008-C-0134

FSMC Invoices - DCPS Regular & Summer School

2008/2009	Regular	Summer	TOTAL
31-Jul-08	0.00	0.00	0.00
31-Aug-08	0.00	0.00	0.00
30-Sep-08	4,416,269.17	0.00	4,416,269.17
31-Oct-08	2,971,250.44	0.00	2,971,250.44
30-Nov-08	3,108,515.18	0.00	3,108,515.18
31-Dec-08	3,670,115.88	0.00	3,670,115.88
31-Jan-09	2,595,992.70	0.00	2,595,992.70
28-Feb-09	2,656,431.67	0.00	2,656,431.67
31-Mar-09	2,533,133.64	0.00	2,533,133.64
30-Apr-09	2,316,349.43	0.00	2,316,349.43
31-May-09	3,102,356.49	0.00	3,102,356.49
30-Jun-09	1,754,975.35	85,941.99	1,840,917.34
TOTAL	\$29,125,389.95	\$85,941.99	\$29,211,331.94

2010/2011	Regular	Summer	TOTAL
31-Jul-10	310,557.06	453,188.51	763,745.57
31-Aug-10	942,147.94	93,578.99	1,035,726.93
30-Sep-10	3,342,869.19	0.00	3,342,869.19
31-Oct-10	3,297,433.47	0.00	3,297,433.47
30-Nov-10	3,190,303.25	0.00	3,190,303.25
31-Dec-10	2,195,424.95	0.00	2,195,424.95
31-Jan-11	3,287,934.87	0.00	3,287,934.87
28-Feb-11	2,696,618.71	0.00	2,696,618.71
31-Mar-11	2,744,479.08	0.00	2,744,479.08
30-Apr-11	2,539,282.26	0.00	2,539,282.26
31-May-11	2,740,881.37	0.00	2,740,881.37
30-Jun-11	2,044,865.76	0.00	2,044,865.76
TOTAL	\$29,332,797.91	\$546,767.50	\$29,879,565.41

SUMMER	\$2,071,159.35
REGULAR	\$116,667,129.31
GRAND	\$118,738,385.66

2009-2010	Regular	Summer	TOTAL
31-Jul-09	385,271.85	523,743.35	909,015.20
31-Aug-09	755,319.61	126,708.97	882,028.58
30-Sep-09	3,151,961.11	0.00	3,151,961.11
31-Oct-09	3,123,714.54	0.00	3,123,714.54
30-Nov-09	2,541,790.04	0.00	2,541,790.04
31-Dec-09	2,765,217.82	0.00	2,765,217.82
31-Jan-10	2,263,335.82	0.00	2,263,335.82
28-Feb-10	2,599,777.44	0.00	2,599,777.44
31-Mar-10	2,605,412.70	0.00	2,605,412.70
30-Apr-10	2,393,733.64	0.00	2,393,733.64
31-May-10	2,689,636.84	0.00	2,689,636.84
30-Jun-10	2,134,443.93	110,143.04	2,244,586.97
TOTAL	\$27,409,615.34	\$760,595.36	\$28,170,210.70

2011/2012	Regular	Summer	TOTAL
31-Jul-11	196,313.19	556,416.54	752,729.73
31-Aug-11	779,629.80	121,437.96	901,067.76
30-Sep-11	3,631,884.38	0.00	3,631,884.38
31-Oct-11	3,497,985.08	0.00	3,497,985.08
30-Nov-11	3,531,469.23	0.00	3,531,469.23
31-Dec-11	3,025,570.54	0.00	3,025,570.54
31-Jan-12	3,262,354.08	0.00	3,262,354.08
29-Feb-12	3,400,253.36	0.00	3,400,253.36
31-Mar-12	3,858,538.50	0.00	3,858,538.50
30-Apr-12	2,445,406.95	0.00	2,445,406.95
31-May-12	3,169,921.00	0.00	3,169,921.00
Rounding			97.00
TOTAL	\$30,799,326.11	\$677,854.50	\$31,477,277.61

Table 6-5: FSMC income for all school years 2008-2012

District of Columbia Public Schools

FSMC Contract GAGA-2008-C-0134

Food Income/Reimbursement - DCPS Regular & Summer School

2008/2009	Regular	Summer	TOTAL
31-Jul-08	0.00	0.00	0.00
31-Aug-08	0.00	0.00	0.00
30-Sep-08	1,959,891.50	0.00	1,959,891.50
31-Oct-08	1,753,249.15	0.00	1,753,249.15
30-Nov-08	1,426,514.76	0.00	1,426,514.76
31-Dec-08	1,181,656.70	0.00	1,181,656.70
31-Jan-09	1,495,350.62	0.00	1,495,350.62
28-Feb-09	1,652,012.26	0.00	1,652,012.26
31-Mar-09	1,501,449.87	0.00	1,501,449.87
30-Apr-09	1,616,700.91	0.00	1,616,700.91
31-May-09	1,645,610.47	0.00	1,645,610.47
30-Jun-09	712,168.00	63,503.42	775,671.42
TOTAL	\$14,944,604.24	\$63,503.42	\$15,008,107.66

2010/2011	Main Invoice	Summer	TOTAL
31-Jul-10	0.00	57,156.00	57,156.00
31-Aug-10	332,142.77	0.00	332,142.77
30-Sep-10	2,250,323.77	0.00	2,250,323.77
31-Oct-10	1,877,508.86	0.00	1,877,508.86
30-Nov-10	2,061,879.14	0.00	2,061,879.14
31-Dec-10	1,298,384.24	0.00	1,298,384.24
31-Jan-11	1,671,886.61	0.00	1,671,886.61
28-Feb-11	1,657,949.89	0.00	1,657,949.89
31-Mar-11	2,493,603.15	0.00	2,493,603.15
30-Apr-11	1,406,875.62	0.00	1,406,875.62
31-May-11	2,552,472.37	0.00	2,552,472.37
30-Jun-11	1,219,478.24	439,572.81	1,659,051.05
TOTAL	\$18,822,504.66	\$496,728.81	\$19,319,233.47

SUMMER	\$1,760,109.74
REGULAR	\$68,615,157.16
GRAND	\$70,375,266.90

2009-2010	Main Invoice	Summer	TOTAL
31-Jul-09	3,115.10	561,741.00	564,856.10
31-Aug-09	634.36	88,493.00	89,127.36
30-Sep-09	2,124,782.28	0.00	2,124,782.28
31-Oct-09	1,868,528.45	0.00	1,868,528.45
30-Nov-09	2,036,863.21	0.00	2,036,863.21
31-Dec-09	872,179.13	0.00	872,179.13
31-Jan-10	1,676,153.38	0.00	1,676,153.38
28-Feb-10	1,252,129.46	0.00	1,252,129.46
31-Mar-10	1,748,873.39	0.00	1,748,873.39
30-Apr-10	2,081,330.06	0.00	2,081,330.06
31-May-10	1,837,126.02	0.00	1,837,126.02
30-Jun-10	1,223,117.17	68,027.02	1,291,144.19
TOTAL	\$16,724,832.01	\$718,261.02	\$17,443,093.03

2011/2012	Main Invoice	Summer	TOTAL
31-Jul-11	0.00	58,484.27	58,484.27
31-Aug-11	383,412.10	0.00	383,412.10
30-Sep-11	2,292,272.75	0.00	2,292,272.75
31-Oct-11	1,838,375.57	0.00	1,838,375.57
30-Nov-11	2,056,722.84	0.00	2,056,722.84
31-Dec-11	1,423,749.04	0.00	1,423,749.04
31-Jan-12	2,386,638.99	0.00	2,386,638.99
29-Feb-12	1,924,327.59	0.00	1,924,327.59
31-Mar-12	2,177,635.89	0.00	2,177,635.89
30-Apr-12	1,504,055.34	0.00	1,504,055.34
31-May-12	2,136,026.14	0.00	2,136,026.14
1-Jun-12	0.00	423,132.22	423,132.22
TOTAL	\$18,123,216.25	\$481,616.49	\$18,604,832.74

6.4 RECOMMENDATIONS

It is necessary to re-compute the loss in every instance where a modification is made to the contract. When the number of schools is decreased or increased, there is an impact on the operating expenses and projected revenue. Under the current budget, the number of schools was reduced by over 28% (from 148 to 106), but the GML was not adjusted accordingly. The re-computation must be done within the established structure of the budget line items, not in aggregate. For comparison purposes a final reconciliation for each contract year showing the agreed budget, net of modifications, and the meal count should be done. When the numbers of meals are reduced an adjustment should be made.

The DCPS invoice must have sufficient documentation to crosswalk between the provided P&L and the invoice. There are P&L accounts that are modified internally by the FSMC, combined differently, or excluded prior to being placed on the invoice. A detailed schedule will make

reconciling the two documents easier. Currently the process of reconciling is an oral one between the FSMC and the DCPS representative.

FMS recommends the following:

- the development and implementation of invoicing procedures/instructions in accordance with the contract
- Regular daily monitoring of the cost of operations by business management specialist with a variety of skills, especially in purchasing, inventory management, food production, financial analysis, and government contracting
- All modifications to the contract should be documented and approved in writing prior to implementation
- A more rigorous approach to validating that penalties are actually paid by the FSMC, especially in instances where the payment is made by offset against a future invoice.

TASK #7.0 INVENTORY PROCESS ANALYSIS

7.1 OBJECTIVE

To monitor the equipment inventorying process FMS was required to complete the following tasks:

- Review all cafeteria inventory lists, making site visits when necessary and meeting with staff when necessary;
- Oversee the FSMC inventory processes by making site visits when necessary and meeting with staff when necessary; and
- Compare the inventory taken by the FSMC and DCPS to ensure records match
- Determine where records show inconsistencies

Background

According to the U.S. Department of Agriculture's Contracting with Food Service Management Companies: Guidance for School Food Authorities, DCPS must comply with existing Federal, State and local procurement requirements when obtaining the services of a food service management company.

The contract monitoring standards states that the Executive Director of OFNS and or his designee shall monitor the food service operation of the FSMC through periodic on-site visits to ensure that the food service is in conformance with all USDA regulations (section C.19.1).

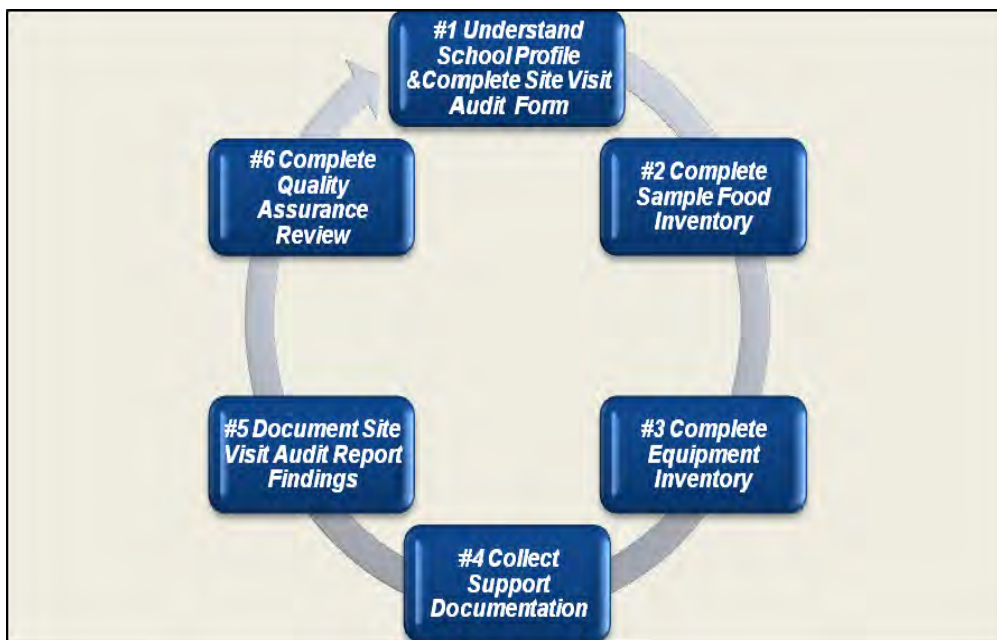
Scope

The review and analysis of the Contractor's inventory process included the period May 2012 to June 2012.

Methodology

During the period of May 8, 2012 to June 1, 2012, FMS completed 105 site-visit audits which required a thorough examination of school profiles, equipment, food inventories, and documentation gathering and review. FMS' Inventory Monitoring & Analysis Approach included a comprehensive six step process to determine FSMC level of compliance with the mandatory inventory management requirements. The six step process included the following outlined processes in Exhibit 7-1 below.

Exhibit 7-1: Inventory Monitoring & Analysis Approach




Understand School Profile and Complete Site Visit Audit Form

The first step in the Inventory Monitoring & Analysis Approach included understanding the dynamics of the student population and available school food programs; and completing the site-visit audit questionnaire.

The site-visit audit form included three sections:

1. ***School Profile Analysis:*** The school profile documents demographic information relating to the school including its name, location, principal, school type, and food service point of contacts. It also documents the kitchen type and number of food programs operating at that location. The school profile analysis also required auditors to document any and all identified deficiencies. The FMS audit team identified an itemized list of deficiencies as observed or reported.
2. ***Site Visit Audit Survey:*** The site-visit audit survey included a set of 32 questions that comprehensively captured the internal processes of FSMC staff. Exhibit 7-2: Site-Visit Survey below illustrates a snapshot of the questionnaire. The questions were answered yes, no, or not applicable (N/A) and required supporting comments to justify answers.

Exhibit 7-2: Sample Portion of the Site Visit Survey

 District of Columbia Public Schools School Visit Questionnaire						
#	Step	Yes	No	N/A	REF	NOTES/ COMMENTS
1	Is the planning & management of inventory levels centralized?					
2	Is the planning & management of inventory levels decentralized?					
3	Are orders initiated by the schools?					
4	Are orders based on school menus?					
5	Is there a separation of duties between ordering, receiving, recording, and verifying inventories?					
6	Is there sufficient documentation and verification that food and supplies received were actually ordered by the cafeterias?					
7	Does the school regularly receive different quantities than what was ordered?					
8	Does the school regularly receive food and/or supplies different than what was ordered?					
9	Are there expiration or received dates for all food items in inventory?					
10	Are inventory withdrawals adequately documented at the cafeterias?					
11	Are there transfer of food/ supplies between schools?					
12	Are transfers between schools adequately documented?					

3. **Collected Documentation:** The collected documentation section required auditors to record documents received and by whom during the site-visit. Consistently, the FMS audit team requested the location's edit check form, most recent inventory records, production records, menus, and ordering forms.

Complete Sample Food Inventory

The second step in the Inventory Monitoring & Analysis Approach included completing food inventories. In many instances, only a sample of food inventories was achievable based on the kitchen set up and conditions. The FMS audit team - in many instances - portioned off the sections of the kitchen. For ease, the audit team separated food into categories to ensure all commodities were documented. Some individual areas include the food preparation station, the walk-in cooler, dry-storage and condiment coolers.

To determine actual level of waste or mismanagement of inventory, food inventory levels and related processes must undergo additional review to determine if the appropriate correlations between financial statements, ordering records, meal production records, and inventory level align.

Complete Equipment Inventory

The third step in the Inventory Monitoring & Analysis Approach included completing an inventory of equipment. The equipment inventory included the quantity, operation, make, model, and serial numbers of equipment. It also required testing the equipment to determine if it was working properly. The equipment inventory was documented using an equipment record inventory sheet.

Collect Supporting Documentation

The fourth step in the Inventory Monitoring & Analysis Approach included the collection of additional documentation. The additional documentation included:

- Edit Check Forms
- Production Records
- Menus
- Customer Summary List
- Ordering Forms

Document Site Visit Audit Report Findings

The fifth step in the Inventory Monitoring & Analysis Approach included documenting any additional findings not previously covered in the site visit survey. Additional observations not previously covered in the site visit survey and inventories were documented in narrative format as a supplement to the report.

Complete Quality Assurance Review

The sixth step in the Inventory Monitoring & Analysis Approach included the quality assurance review.

7.2 FINDINGS

During the audit, FMS completed 105 site-visits which required a thorough examination of school profiles; equipment and food inventories; and related operational processes. The site-visit audit included the review, collection, and analysis of supporting documentation. Additionally, each site-visit audit was completed with a quality assurance review of materials, the date and a final audit report.

FMS classified the three kitchen types within DCPS as the following:

1. ***Production Kitchen:*** A production kitchen is a kitchen that processes foods from raw to ready-to-eat or semi-cooked. This type of kitchen also generates the necessary quantity of meals to be distributed to multiple cafeteria locations. This type of kitchen may receive and process commodities directly from suppliers.
2. ***Cooking Kitchen:*** A cooking kitchen is a kitchen that processes foods from raw to ready-to-eat or semi-cooked. This type of kitchen generates the necessary quantity of meals for a single cafeteria location. This type of kitchen may receive and process commodities directly from suppliers.
3. ***Satellite Kitchen:*** A satellite kitchen is a kitchen that is not able to process foods from raw to ready-to-eat or semi-cooked. This kitchen may warm and/or package prepared meals. This type of

kitchen receives the necessary quantity of meals for a single cafeteria location from a production school. This type of kitchen does not receive and process commodities directly from suppliers.

The DCPS offered a varied and multi-faceted portfolio of school locations, which was favorable for the level of analysis needed to complete an inventory monitoring and analysis report. Exhibit 7-3 illustrates that approximately 61% of the Contractor's responsibility includes servicing Elementary Schools with approximately 26% service to Middle and High Schools collectively. The implication being that younger students are much more reliant on nutritional food programs.

DCPS's largest portfolio of kitchen types for the FSMC were noted as cooking kitchens with 59% followed by satellite kitchens with 36%.

Exhibit 7-3: FSMC's Portfolio of DCSP Locations

School Type	Kitchen Type			Grand Total	%
	Cooking	Production	Satellite		
Alt	1		1	2	1.90%
Education Campus	6		2	8	7.62%
Elementary School	33		31	64	60.95%
High School	10	5	1	16	15.24%
Middle School	10		1	11	10.48%
Special Ed	1		2	3	2.86%
Youth Engagement	1			1	0.95%
Grand Total	62	5	38	105	
	59.05%	4.76%	36.19%		

FMS completed 105 site-visit audits following the methodology described above including an extensive review and observation of inventory processes and equipment. The audit team compared existing inventory records prepared by the FSMC and the on-site equipment inventory observed during the site-visit. At the end of the audit period, FMS also compared the observed on-site equipment inventory to the final inventory records prepared by the FSMC.

Quantity of Equipment Differences

As a result of the equipment inventory analysis, FMS observed differences between the end-of-the-year equipment inventory documented by the FSMC and the equipment inventory prepared during the FMS site-visit. Site-visit differences were based on total pieces of equipment observed vs. total pieces of equipment listed in the equipment inventory records that do not "match".

Working vs. Non-Working Equipment Differences

During site-visits, FMS also compared the listings of "working equipment" versus "non-working equipment" between the end-of-the-year equipment inventories as documented by the FSMC.

In our opinion, DCPS school equipment should work properly if located on school premises and is being utilized to provide food services. If the equipment is not working properly, it should be documented accurately and either repaired or replaced timely.

7.3 RECOMMENDATIONS

FMS provides the following recommendations related to monitoring the process of food inventory and equipment inventory:

Improve Inventory Management Standards and Controls

- Inventory Management Standards and Controls are necessary to guide the proper completion of inventory documentation. There also needs to be an improved system of reporting, repairing, and replacing equipment inventory.

Increase Resources to Document and Report Inventories More Efficiently

- Inventory records, documentation, and equipment information need to be prepared and reconciled on a regular weekly basis. In addition, all records and documentation shall be made readily available upon request and stored in a centralized database where it may be easily accessed at any given time.
- Clearly define and document responsibilities among the various entities involved in the food services environment including, OFNS, the FSMC and the Principals for capital equipment.

Complete Routine Site Visits

- Conduct timely site visits for oversight and continuous monitoring of equipment inventorying process

APPENDIX

A.1 REBATES PROCESS

The Rebate Process

The rebate process is a multi-layered web of activities involving numerous transactions and several entities in a multitude of ways. The FSMC's corporate headquarters operates on a national as well as on a global level. Rebates are aggregated at these levels and further allocated based on "spend" factors. Different types of rebates directly related to numerous purchases contribute to the complexity of determining what the FSMC passed on to DCPS. Rebates could be classified as off-invoice allowances, bill-back allowances, net price product adjustments and/or regular rebates as follows:

- Rebates - the supplier makes payments to the company upon meeting selected criteria or otherwise effectively reduced the cost of product directly or indirectly
- Off-Invoice allowances - the supplier reduces the invoice cost of a product to a company (e.g., a reduction from \$10.00 to \$8.00 in the company's invoice cost to purchase a case of product)
- Bill-back allowances - are similar to off-invoice allowances, except the allowance is made separately from the invoice, which reflects the regular cost of the product to the company
- Net price product adjustments - the supplier reduces a product's invoice price

Rebates are based on advance agreements specifying, among other things, the basis of computation and the percentage formulation. Rebates are based primarily on (1) quantity of units, (2) quantity of dollars or (3) total invoice amount. The terms of the agreement are loaded into the Foodbuy system to facilitate its automation.

It was not possible to test the physical flow of rebate payments/credits from the point of purchase through the parent company and its subsidiaries to an entry on the FSMC's invoice to DCPS.

Rebate Categories

Based on discussions with representatives of the FSMC, several categories or "buckets" are used to capture rebates. The buckets are (1) distribution, (2) Ceres invoiced, (3) locals off invoice, (4) cold beverage, (5) hot beverages, (6) direct food & vendor, (7) local, (8) supplies & equipment and (9) other.

1. Distribution

Most rebates are earned through the Distribution channel because of the volume of activity relative to DCPS. Distributors are able to purchase large volumes from manufacturers and achieve volume discounts. DCPS, on its own, could not meet the minimum quantity required (drop size) to achieve these discounts. The FSMC identifies the specific Distributor and this identification allows the manufacturer to track purchases on behalf of DCPS. Foodbuy also tracks purchases by customer and makes the allocation of the Distributor payment on that basis.

2. Ceres Invoiced

Ceres is contracted by Foodbuy to manage the distributors' data and suppliers' rebates. The Ceres rebate system is automated. Data feeds from distributors are received by the system nightly. The data feed consists of approximately 15 million transactions detailing purchasing information on rebate recipients at the line item detail. The Ceres software captures rebate information for large distributors based on brand named purchases and on brands that are not linked to specific manufacturers. The information is captured by line order detail and not by total invoice amount. Although some of these distributors generate data feeds, Ceres captures its own information on purchases which shows the spending by each customer. Rebates on Manufacturers' brands are accumulated in Ceres under manufacturers' name. Rebates on Distributors' brands are accumulated under Distributor brand.

3. Locals Off-Invoice

Some purchases are outside the framework of Distribution and other capture methods. The rebate on these purchases is taken immediately off the total amount of the DCPS purchases when the related invoice is paid. It is not product or line item based. The rebate is based on volume. There is no allocation among several FSMC's customers. The payment is passed back to DCPS.

4. Cold Beverage

Ceres captures the total rebates for cold beverage purchased by DCPS and others. The detail includes itemized line order from the purchasing invoice or similar information from beverage suppliers. The rebate is based on a flat fee per quantity (whole case) reported, times the agreed rate. Ceres bills the supplier and allocates the payment to the rebate recipients.

5. Hot Beverage

Ceres captures the total rebates for hot beverage purchased by DCPS and others. The detail includes itemized line detail from the purchasing invoice or similar information from beverage suppliers. The rebate is based on a flat fee per case reported, times the agreed rate. Ceres bills the supplier and allocates the payment to the rebate recipients. DCPS does not use hot beverages.

6. Direct Food & Vending

The purchases are tracked by CERES. No invoice for the rebate is sent to the rebate payer, so payment is made automatically to Foodbuy. The amount of the payment is determined from distributor billbacks and reconciled to Ceres' records. Since the supplier provides only aggregate information, the allocation is done by Foodbuy based on spending by each customer. The reconciliation priority is to the supplier's records not to Ceres' so payment to DCPS may be less after the computed proration.

7. Local

The rebate category applies to regional or local suppliers whose invoice is not discounted at time of payment. The supplier will pay 5% back in a check form to Foodbuy. If no customer detail is provided, Foodbuy uses its Accounts Payable system to allocate the amount. The discount is based on the aggregate invoice, not line item.

8. Supply & Equipment

A supplier may give line item product detail. Suppliers report the allowance to Foodbuy. Customer level detail is from the FSMC accounts payable system and is the basis for allocation. Sometimes a supplier may provide customer detail and a more specific allocation is made. This category is not Ceres based. Foodbuy receives the rebate as income and passes it to DCPS.

9. Other

There are small amounts of cash discounts, other payments, miscellaneous incentives and price audit adjustments that are included in the rebate pool. Payments resulting from price audits are determined by Foodbuy based on its internal reviews. Also, a single purchase may qualify for both a Distributor rebate and a Ceres Invoiced rebate (manufacturer rebate).

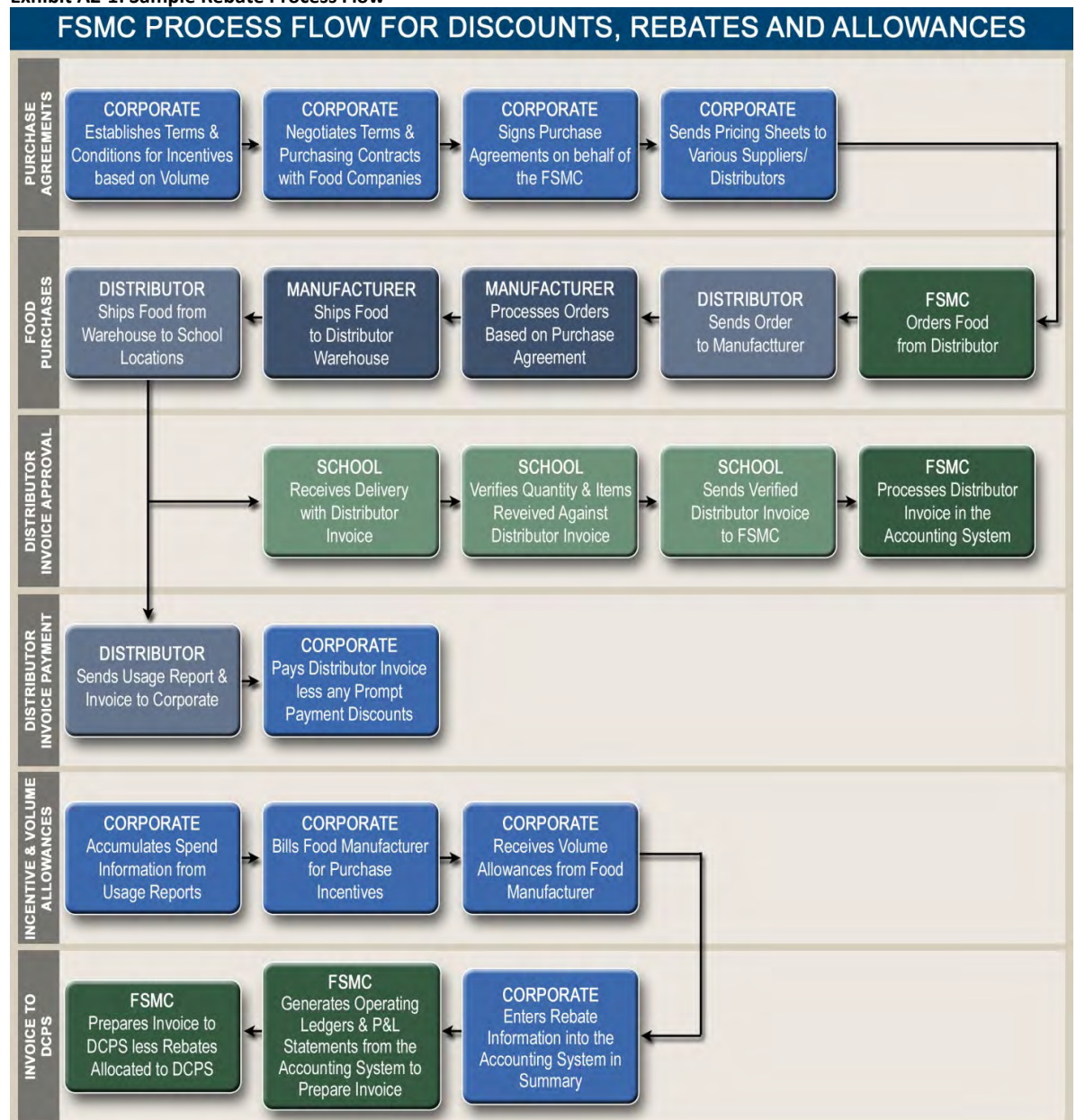
A.2 REBATE PROCESS FLOW

The rebate process flow is intended to show a sample of how some rebates are processed. The sample is not meant to demonstrate an all inclusive process but to illustrate some of the many steps inherent in the process.

Sample Rebate Process Flow

The basic elements of the FSMC's rebate process along with related questions are outlined below to aid in further understanding the interpretation of the rebate process.

Exhibit A2-1: Sample Rebate Process Flow



Purchase Agreements

What are the FSMC's purchase agreements and how do they affect the rebate process?

1. Corporate establishes the terms and conditions for incentives based on volume
2. Corporate negotiates terms and purchasing contracts with food companies
3. Corporate signs purchase agreement on behalf of the FSMC
4. Corporate sends pricing sheets to various suppliers/distributors

Food Purchases

In the FSMC's food purchasing cycle, what is the relationship between manufacturer and distributor?

1. FSMC orders food from distributor
2. Distributor sends order to manufacturer
3. Manufacturer processes orders based on purchase agreement
4. Manufacturer ships food to distributor warehouse
5. Distributor ships food from warehouse to school locations

Distributor Invoice Approval

Once food is received by the school being serviced how are rebates determined?

1. School receives delivery of goods along with the distributors invoice
2. School verifies quantity and items received against distributor invoice
3. School sends verified distributor invoice to FSMC
4. FSMC processes distributor invoice in the accounting system, thereby capturing some related spend information

Distributor Invoice Payment

What is the impact of distributor invoices on the rebate process?

1. Distributor sends usage reports and invoice to Corporate
2. Corporate pays distributor invoice less any prompt payment discounts

Incentives and Volume Allowances

How are incentives processed?

1. Corporate accumulates spend information from usage reports
2. Corporate bills food manufacturer for purchase incentives
3. Corporate received volume allowances from food manufacturer

Invoices from the FSMC to DCPS

How are incentives passed on to DCPS?

1. Corporate enters rebate information into the accounting system in summary

2. FSMC generates operating ledgers and P&L statements from the accounting system to prepare the invoice to DCPS less any rebates allocated to DCPS. The FSMC presents rebates on invoices as follows:
 - Gross Product Costs
 - Less: Total Rebates
 - Net Product Cost
3. Incentives are passed back in different ways:
 - a) As a credit on the FSMC's invoice to DCPS
 - b) As a check to the FSMC
 - c) As a reduction of invoice from suppliers

A.3 REBATE ALLOCATION

The rebate allocation processes are based on discussions with representatives of the FSMC.

Rebate Allocation

The details are captured in 3 subsets (1) by line item detail, (2) supplier provided customer detail and (3) Compass' detail from its Accounts Payable module to determine the allowance per dollar as reported in the aggregate by supplier.

There are suppliers who report rebates in multiple buckets, for example, PFG. The explanation given by the FSMC is that DCPS may buy PFG sourced products for certain items. So although PFG, for example, provides XYZ Cheese, it may also supply ABC cheese. Manufacturer XYZ shows up as a Distribution rebate with a PFG link, while ABC cheese shows up in Ceres Invoiced category with a PFG link.

A supplier, supplies various products to DCPS and its rebate is in the Locals Off Invoice category. The rebate is taken off the invoice directly. The FSMC records the payment at 100% and the discount is shown as a rebate through the FSMC's Accounts Payable system. The processing of the supplier invoice and payment to the supplier are handled by different components of the parent company. Late payment does not affect the off-invoice discount. No cash discounts (timely payment discounts) apply in this case, but if it did it would be shown as a separate line item in the rebate book. The FSMC stated that invoices are paid on time to avoid the loss of any payment discounts.

An illustration of the complexities around the rebate process is the Dunbar rebate received in school year 2011 from Dunbar Armored in the amount of \$38. DCPS stated that the Dunbar contract is a citywide contract which is paid outside of the DCPS and is not subject to rebates by the FSMC. The explanation given by the FSMC is that Dunbar sent an aggregate check to the parent company for use of Dunbar's services worldwide. Based on the customary reliance on the account payable records at the parent company,

DCPS earned the rebate because the records reflect one or more payments by DCPS to Dunbar. The FSMC indicated that the policy is to push all of the rebates out to its customers. Absent any other method, it uses its accounts payable system as the basis for its allocations by determining payments made by each of its customers to the supplier.

At times, Distributor brands may be used based on requirements by Chefs and also sector specifications. In these instances, the rebates are accumulated in the Distributor bucket. If the Distributor does not have a particular product in its product line, it may use a non-approved manufacturer directly. A non-approved manufacturer is one that does not have an agreement with the FSMC, so by default the rebate is accumulated in the Ceres Invoiced category. If there is a large requirement, a direct order is placed with the manufacturer. Large enough is usually defined as a truckload. However, rarely is there a large requirement.

The FSMC representatives indicated that structured information on rebate related purchases made by DCPS, showing manufacturer, distributor and line item will require a response from their legal department. It may be available at the DC Office but it is unclear how it is structured. There are timing differences in reporting rebates as to when earned and when paid on the cash receipt basis. For example, rebates from payers may be made monthly or quarterly to the FSMC and credited to DCPS on its invoice months later. So there is not always a correlation between the monthly purchases and the rebates reported for that month. Routinely rebates are reported on the FSMC's invoices for summer school months that are disproportionate to the purchase of products for that period.

A.4 FSMC BUDGET TO ACTUAL DETAILS

Table A4-1: School Year 2008/2009

	Per Award	Modification	FINAL BUDGET	Regular School	Summer School	ACTUAL COSTS	Variance
		Modification #13			N/A		
Meals Served	11,894,246	of 03/31/11	11,894,246	8,600,497	27,838	8,628,335	(3,265,911)
Cash Sales	\$4,617,099		\$4,617,099	\$0		\$0	
Reimbursement Income	\$16,706,202		\$16,706,202	\$0		\$0	
Sales			\$0	\$14,944,604	\$63,503	\$15,008,108	
TOTAL INCOME	\$21,323,301		\$21,323,301	\$14,944,604	\$63,503	\$15,008,108	(6,315,193)
EXPENSES							
Total Food Cost	\$12,027,506		\$12,027,506	\$0		\$0	
Product & Paper Cost	\$0		\$0	\$12,480,985	\$33,884	\$12,514,869	
FSMC Hourly Wages	\$6,732,365		\$6,732,365	\$11,562,765	\$45,435	\$11,608,200	
FSMC FringeBenefit Cost	\$3,665,695		\$3,665,695	\$0		\$0	
FSMC Management Labor Cost	\$1,379,444		\$1,379,444	\$1,495,033	\$4,256	\$1,499,289	
Direct Cost	\$2,207,255		\$2,207,255	\$0		\$0	
Semi-Variable Cost	\$0		\$0	\$2,965,806		\$2,965,806	
FSMC Administrative Fee	\$1,000,000		\$1,000,000	\$1,000,000	\$0	\$1,000,000	
FSMC Management Fee	\$1,011,011		\$1,011,011	\$607,337	\$2,366	\$609,703	
FSMC Management Penalty	\$0		\$0	\$0		\$0	
Modifications/Adjustments	\$0	(\$1,468,959)	(\$1,468,959)	(\$986,536)		(\$986,536)	
TOTAL EXPENSES	\$28,023,276	(\$1,468,959)	\$26,554,317	\$29,125,390	\$85,942	\$29,211,332	2,657,015
Gross Loss	(6,699,975.00)	1,468,959.00	(5,231,016.00)	(14,180,785.71)	(22,438.57)	(14,203,224.28)	(8,972,208.28)

Table A4-2: School Year 2009/2010

	Per Award	Modification	FINAL BUDGET	Regular School	Summer School	ACTUAL COSTS	Variance
		Modification #13			N/A		
Meals Served	12,251,071	of 03/25/11	12,251,071	8,912,718	251,958	9,164,676	(3,086,395)
Cash Sales	\$4,940,296		\$4,940,296	\$0		\$0	
Reimbursement Income	\$17,207,388		\$17,207,388	\$0		\$0	
Sales			\$0	\$16,724,832	718,261.02	\$17,443,093	
TOTAL INCOME	\$22,147,684		\$22,147,684	\$16,724,832	\$718,261	\$17,443,093	(\$4,704,591)
EXPENSES							
Total Food Cost	\$9,889,218		\$9,889,218	\$0		\$0	
Product & Paper Cost	\$0		\$0	\$9,840,570	395,387.06	\$10,235,957	
FSMC Hourly Wages	\$7,550,000		\$7,550,000	\$12,075,553	290,571.45	\$12,366,125	
FSMC FringeBenefit Cost	\$4,077,000		\$4,077,000	\$0	0.00	\$0	
FSMC Management Labor Cost	\$1,420,827		\$1,420,827	\$1,643,744	39,353.09	\$1,683,097	
Direct Cost	\$2,207,255		\$2,207,255	\$0	0.00	\$0	
Semi-Variable Cost	\$0		\$0	\$2,542,190	13,867.53	\$2,556,058	
FSMC Administrative Fee	\$1,030,000		\$1,030,000	\$1,000,000	0.00	\$1,000,000	
FSMC Management Fee	\$1,041,341		\$1,041,341	\$623,418	21,416.26	\$644,834	
FSMC Management Penalty	\$0		\$0	\$0	0.00	\$0	
Modifications/Adjustments	\$0	(714,794)	(714,794)	(315,860)		(315,860)	
TOTAL EXPENSES	\$27,215,641	(\$714,794)	\$26,500,847	\$27,409,615	\$760,595	\$28,170,211	\$1,669,364
Gross Loss	(5,067,957)	714,794	(4,353,163)	(10,684,783)	(42,334)	(10,727,118)	(6,373,955)

Table A4-3: School Year 2010/2011

	Per Award	Modification	Modification	FINAL BUDGET	Regular School	Summer School	ACTUAL COSTS	Variance
		Modification # 20	Modification # 14			N/A		
Meals Served	12,618,600	of 8/9/11	of 3/31/11	12,618,600	8,540,780	180,136	8,720,916	(3,897,684)
Cash Sales	5,088,508			5,088,508	0		0	
Reimbursement Income	17,723,609			17,723,609	0		0	
Sales				0	18,822,505	496,729	19,319,233	
TOTAL INCOME	\$22,812,117			\$22,812,117	\$18,822,505	\$496,729	\$19,319,233	(\$3,492,884)
EXPENSES								
Total Food Cost	\$10,008,653			\$10,008,653	\$0	\$234,734	\$234,734	
Product & Paper Cost	\$0			\$0	\$11,649,715		\$11,649,715	
FSMC Hourly Wages	\$7,776,500			\$7,776,500	\$11,908,319	\$260,624	\$12,168,943	
FSMC FringeBenefit Cost	\$4,199,310			\$4,199,310	\$0	\$0	\$0	
FSMC Management Labor Cost	\$1,463,452			\$1,463,452	\$1,599,140	\$22,928	\$1,622,069	
Direct Cost	\$2,272,404			\$2,272,404	\$0	\$0	\$0	
Semi-Variable Cost	\$0			\$0	\$2,660,027	\$13,170	\$2,673,197	
FSMC Administrative Fee	\$1,060,900	(\$160,900)		\$900,000	\$900,000	\$0	\$900,000	
FSMC Management Fee	\$1,072,581	(\$181,407)		\$891,174	\$851,267	\$15,311	\$866,578	
FSMC Management Penalty	\$0			\$0	\$0	\$0	\$0	
Modifications/Adjustments	\$0	\$5,197,200	(\$2,431,513)	\$2,765,687	(\$235,671)		(\$235,671)	
TOTAL EXPENSES	\$27,853,800	\$4,854,893	(\$2,431,513)	\$30,277,180	\$29,332,798	\$546,768	\$29,879,565	(\$397,615)
Gross Loss	(\$5,041,683)		\$2,431,513	(\$7,465,063)	(\$10,510,293)	(\$50,039)	(\$10,560,332)	(\$3,096,269)

Table A4-4: School Year 2011/2012

	Per Award	FINAL BUDGET	Regular School	Summer School	ACTUAL COSTS	Variance
				N/A		
Meals Served	12,997,153	12,997,153	8,107,629	221,281	8,328,910	(4,668,243)
Cash Sales	\$5,241,160	\$5,241,160	\$0		\$0	
Reimbursement Income	\$18,255,318	\$18,255,318	\$0		\$0	
Sales		\$0	\$18,123,216	\$481,616	\$18,604,833	
TOTAL INCOME	\$23,496,478	\$23,496,478	\$18,123,216	\$481,616	\$18,604,833	(\$4,891,645)
EXPENSES						
Total Food Cost	\$10,142,420	\$10,142,420	\$0		\$0	
Product & Paper Cost	\$0	\$0	\$13,458,446	\$289,712	\$13,748,158	
FSMC Hourly Wages	\$8,009,795	\$8,009,795	\$12,371,050	\$334,590	\$12,705,640	
FSMC FringeBenefit Cost	\$4,325,289	\$4,325,289	\$0	\$0	\$0	
FSMC Management Labor Cost	\$1,507,356	\$1,507,356	\$1,521,205	\$17,758	\$1,538,963	
Direct Cost	\$2,339,508	\$2,339,508	\$0	\$0	\$0	
Semi-Variable Cost	\$0	\$0	\$2,406,579	\$13,667	\$2,420,246	
FSMC Administrative Fee	\$1,092,727	\$1,092,727	\$810,000	\$0	\$810,000	
FSMC Management Fee	\$1,104,758	\$1,104,758	\$405,381	\$22,128	\$427,510	
FSMC Management Penalty	\$0	\$0	\$0	\$0	\$0	
Modifications/Adjustments	\$0	\$0	(\$173,239)		(\$173,239)	
TOTAL EXPENSES	\$28,521,853	\$28,521,853	\$30,799,423	\$677,855	\$31,477,277	\$2,955,424
Gross Loss	(\$5,025,375)	(\$5,025,375)	(\$12,676,206)	(\$196,238)	(\$12,872,444)	(\$7,847,069)